

Industry Agenda

The Evolution of Trust in Business

From Delivery to Values

World Economic Forum Leadership, Trust and Performance Equation Project
Prepared in collaboration with PwC

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Executive Summary

Drivers of mistrust

In recent years, a series of well-publicized lapses in corporate behaviour – the sub-prime crisis, Deepwater Horizon disaster, sophisticated international tax minimization structures, “rewards for failure” and the Libor scandal, to name but a few – have severely damaged public trust in business. The resulting “global crisis of trust” is the focus of keen debate and analysis. Every week brings more surveys, academic research, articles and corporate pronouncements. Business leaders know they need to rebuild public trust, and are planning – and in many cases taking – concrete action to mend the rift.

Yet research continues to confirm that, ultimately, the public still does not trust businesses or business leaders to do what is right. This continuing scepticism points to a problem that goes deeper than the effect of recent corporate scandals – a fundamental disconnect that must be addressed if there is to be real progress towards rebuilding trust in business.

The need for a new settlement

Business can do many positive things for society as a whole. It can create jobs, growth and wealth. It can pay wages and generate the profits from which tax revenues are drawn. It can innovate to improve people’s lives, build infrastructure and strengthen communities. But how effective are most businesses at contributing to society in these ways? And does the public really believe they do this?

Many people – including some business leaders – still believe a business’s sole focus is to generate profits, with little or no consideration of the needs of wider society. However, the public is now questioning this view, asking whether businesses should be contributing more to the communities they operate in. In general, the answer is a resounding “yes, they should”. Simply making money is no longer enough.

This mismatch between the contribution business makes and how it is perceived is creating a pressing need for a new settlement between business and society. Today, solely generating profits is no longer sufficient on its own to justify a business’s licence to operate. What is required is a common understanding that aligns expectations on both sides, and clarifies business’s wider role and purpose beyond the creation of financial value. It is this understanding that will foster and rebuild trust.

Two key challenges to overcome

Efforts to close the trust gap by forging such a settlement face two key challenges:

1. *The absence of a clear business case.* Business leaders generally accept that trust is important to their licence to operate. But there is still a lack compelling data to demonstrate why a company should invest in trust-building in the same way as in other capabilities, assets or infrastructure. A case needs to be built based on clear facts and examples in order to catch leaders’ attention, substantiate the economic impact of investing (or failing to invest) in trust, and highlight the levers they can use to effect change.
2. *The “talking past” syndrome:* While facts are important, to be persuasive they must be regarded as relevant by all parties. The problem, however, here is a fundamental disconnect between how the public and business understand “trust”. When members of the public think about trust in business, they usually focus primarily on factors such as values, fairness and behaviour. When business leaders think about building trust in business, they emphasize the delivery of products and services. Both of these elements are needed to rebuild trust, but neither is sufficient on its own. So, until business and society begin talking to rather than past each other, what business delivers is bound to fall short of what society will trust.

Project goals

To address the issue of trust and its related challenges, the World Economic Forum initiated the Leadership, Trust and Performance Equation project. Having identified this pair of challenges to rebuilding of trust in business, the project team set out in this study to do four things:

- Provide a clear explanation of why the public does not trust business, and use this to illustrate how the public’s understanding of trust is fundamentally different from that of business and why this blocks significant trust-building.
- Build the economic case for what companies stand to gain or lose based on their levels of trust-building with an array of individual stakeholders, and how this impacts licence to operate, competitiveness, bottom-line performance and reputation.
- Identify key areas of activity where a company can gain or lose significant value, both financial and non-financial, depending on its level of trust-building. The analysis focused on five distinct areas: business conditions; innovation; internal stakeholder relations; external stakeholder relations; and brand/organizational resilience.
- Showcase examples of concrete actions that business leaders have taken in each of these categories to build trust and extract the lessons that can be shared, while acknowledging that there will always be trade-offs in decisions about where and how to deploy resources.

Through these four steps, the overall goal was to identify the key principles of a new approach to rebuilding trust in corporations. This process involved drawing on experiences and lessons learned from other areas, where business and other institutions engage the public and choosing key areas to test.

An ongoing journey

There will never be a perfect solution to building trust. By definition, trying to earn trust across multiple stakeholders will almost always involve compromises, as the needs of one party will rarely be fully aligned with the needs of another.

Yet a few truths are clear. One is that being trustworthy will not hurt a business – but not being trustworthy certainly will. Another is that going against public perceptions, whether they are well-founded or not, could be catastrophic. Leaders may still choose to do this, but they need to be aware of the choice, and reasons for making it.

A further layer of complexity arises from the fact that the stakeholders' perceptions of a company, an individual leader within that company and the industry within which that same company operates, can all contradict each other. It is possible for a member of the public to distrust industry while still trusting individual providers. With this in mind, the aim of this stage of the project was to focus primarily on looking at trust at a company level, acknowledging the role that wider industry and individual leaders also play in developing trust in business.

This is a vast topic – and one where quantitative data on business impacts is still limited. The study does not seek to be comprehensive or prescriptive. Rather, the goal is to strengthen the case for trust as a component of business success, provide some levers and tools for initiating change and put trust squarely on the map as a major business concern meriting serious board-level attention and investment.



Trust in Business: Framing the Issues

While the events that have undermined trust in government and big business in recent years are often perceived as a series of stand-alone crises, many of them can be categorized within wider global trends. These include rapidly rising executive pay, widening income disparities, systematic tax evasion and various types of corruption. Combined with a perception of inadequate responses from regulators and governments, these trends have reinforced widespread public distrust of business and government as a whole.

Trust contagion

Partly as a result, the decline in trust has been contagious, spreading across industries (as occurred in banking) and along value chains (as in food manufacture and supply). Even where a business has not been directly involved in an issue, trust in the “many” can be tarred by the behaviours of “the few”. The perception of guilt – and the resulting loss of trust and reputation – can be by association and/or inaction as well as direct involvement.

Amid today’s relentless onslaught of information and comment, with the speed and visibility of business decisions rising by the day, there is little sign of the pressure easing off. In such an environment, it is clear that no company can afford to ignore the current crisis of trust. What is equally clear is that those with stronger trust appear to have weathered recent challenges better than those who lacked it.



Creating a buffer

Trusted companies have taken a long-term perspective in their thinking, and have used their fund of trust to create a buffer of credibility and sound reputation against potentially damaging events. When a crisis has struck, stakeholders have given these businesses more time, leeway and benefit of the doubt to respond and put things right.

The severity of the impact varies depending on the nature of the event. Research by the global law firm Freshfields has found that during a well-publicized operational crisis such as a product recall, the share price of the company concerned tends to drop by an average by 37% on day one. With behavioural crises, such as bribery and corruption issues, the decline is much sharper, with initial share price falls averaging 50%-plus, and many companies still suffering declines more than a year after the event. The study also found that behavioural crises also accounted for 40% of incidents where leaders resigned.

So, in uncertain times, businesses need to build up a store of trust that will allow them to navigate a path through disasters of all kinds, while staying true to their values and presenting a clear message to all stakeholders when the going gets tough.

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I think we need to reorient how we think about capitalism. Anyone who is willing to postpone the long-term strategies to make the short-term numbers is in route to going out of business.

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William George, Professor of Management Practice, Harvard Business School, Harvard University, USA

Methodology

To understand the issues around trust and map out a path towards rebuilding it, the World Economic Forum initiated the Leadership, Trust and Performance Equation project to examine how trust in business works. The project team's underlying objective was to "connect the dots" on the issues around corporate trust, and – more importantly – help to generate a wider and more informed dialogue around what can be done to halt and reverse the decline of trust in business.

The project began with an extensive review of literature relating to trust in business. This showed that while there is a significant amount of both academic and business-led literature on trust, each tended to be lacking in some way. The academic literature generally focused more on the statistical relationships between trust and other factors (such as economic performance and GDP), while the business literature focused more on what businesses could do to gain trust. There was little overlap between these two perspectives – there appeared to be a "missing link".

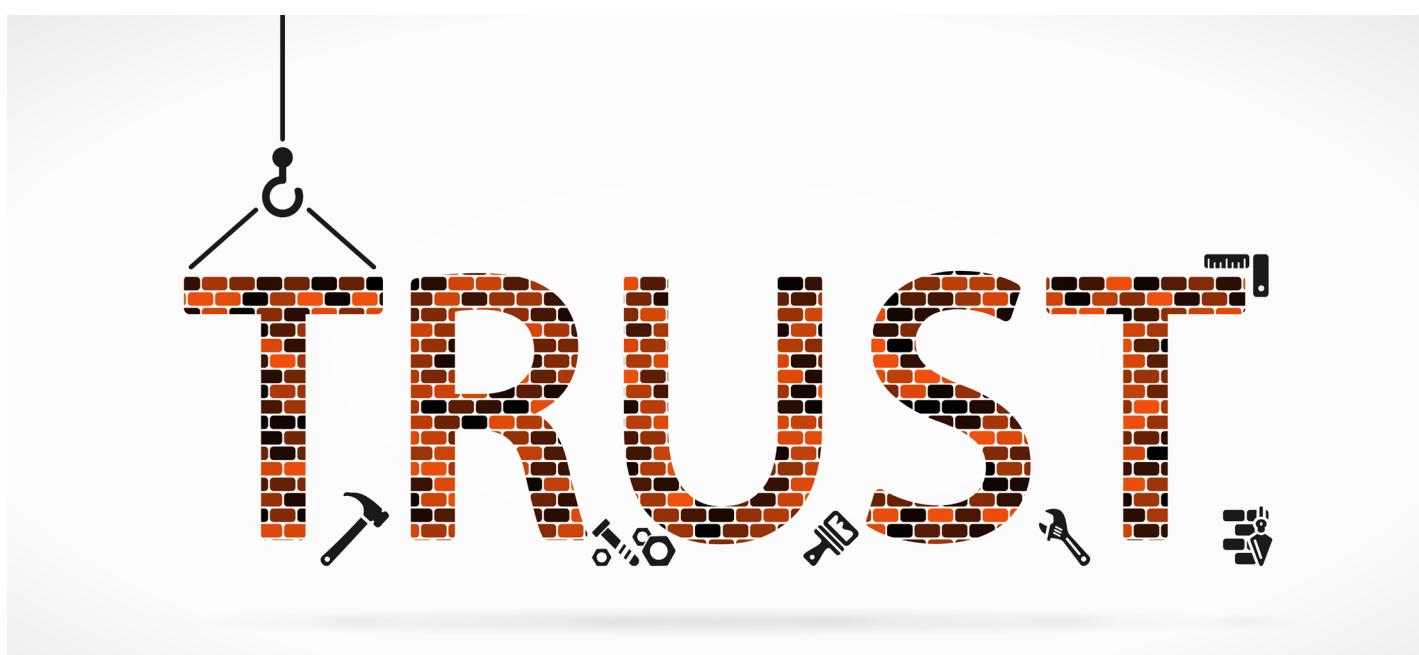
Given the volume of available advice, analysis and insight around trust and its importance, the obvious question was why it is still a problem. The challenge was twofold:

- Where can businesses find the proof of how building trust benefits a company in financial and non-financial ways to help support and justify greater investment in building trust?
- If companies believe they are doing the right things to regain trust, but the public still distrusts business, why are these business initiatives failing?

With these questions in mind, we conducted interviews, held group discussions and undertook further analysis with a view to improving understanding in five key areas:

1. What does the current trust landscape look like in private sector business?
2. What are the main current challenges around trust in business, and what might be the causes of these issues?
3. Why is it worth addressing trust issues, and how can building trust benefit business?
4. What can be done to tackle these challenges, and what have leaders done to date to build, rebuild and maintain trust in their companies?
5. Why is embedding trust-related best practice in business so difficult, and what might be the common challenges leaders face when trying to convince their boards to tackle the issues through action and investment?

This project would not have been possible without the support of the many businesses and business leaders who provided us with valuable insights into the realities and implications of building trust. These insights have been instrumental in enabling us to move the discussion beyond the academic domain, and explore the tangible benefits of building trust, both for private sector organizations and also for the economies and societies in which they operate.



The Business Case for Investing in Trust

Why should companies bother?

Businesses today have many competing priorities. Recent years have brought financial pressures, increased regulatory burdens, frequent reputational crises and a host of other shocks, alongside the pressures of running businesses-as-usual. Against this background, business leaders seeking to keep their companies successful and their stakeholders happy have quite enough on their plate.

So, why should they add building trust to an already full board agenda? Research across the world and statements by business leaders show consistently that, while trust may not always be front of mind, it is the foundation of doing business. Some businesses can succeed in the short term without building trust. But over the longer term, a business without trust eventually loses its licence to operate – in some cases irrevocably.

In response, many companies have been seeking to build trust for several years through long-established corporate social responsibility (CSR) and sustainability programmes. Recent years have also seen a rise in the number of social enterprises – businesses specifically designed to focus on contributing value back to society, and building trust through that contribution.

Few large, mainstream businesses have been designed from ground up with trust in mind. As a result, many business leaders face a challenge in convincing their boards to focus on trust, especially since board members may regard it as an intangible, “nice to have” that is virtually impossible to measure and difficult to track.

Five key benefits

In the face of such challenges, an important finding from this study is that investing in trust generates tangible business benefits, with measurable fiscal and non-fiscal impacts.

The research findings highlight five areas of benefit. Trust enables a business to achieve:

1. Better business terms, processes and conditions
2. Enhanced innovation and entrepreneurship, which contributes to competitiveness
3. More loyal, productive and engaged employee relationships
4. Stronger external relationships up and down the value chain
5. Greater resilience to withstand shocks and crises more effectively.

These benefits apply to varying degrees for different companies, depending on factors such as industry, age, market maturity and corporate identity.

The next section examines each of these five benefits in turn, while also using them to highlight some of the issues that will shape companies' licence to operate into the future.



In times of economic plenty – in a seller's market – it is all too easy to forget about the existence of trust and the important role it can play. But recent experience has underlined time and again just how fragile trust can be, and how serious the consequences can be when it evaporates. Witness – among others – the events surrounding Lehman's, Toyota, BP and Northern Rock. Executives may talk about trust in broad corporate terms, but the extent to which the trust agenda consciously lives and breathes within organizations varies enormously. Sometimes it becomes muddled with the management of brands or reputation. It is even more fundamental than those assets to the core of a business – to its culture, its values and its behaviours.



PwC, “Trust: the overlooked asset”

1. Better business terms, processes and conditions

Companies that succeed in strengthening trust among their stakeholders stand to gain an edge over their competitors in terms of business terms, processes and conditions, in areas ranging from M&A to partnerships to project execution.

Easier, more productive corporate ventures

According to a study by KPMG, 83% of all mergers and acquisitions fail to deliver value, with on average 50% of top executives leaving the acquired company within the first year after the deal.² Other research has shown that building trust during a corporate venture can help reduce costs, increase staff retention and reduce hurdles to the venture execution. With integration of corporate cultures representing one of the key hurdles to successful mergers, the KPMG research also found that 45% of Fortune 500 CFOs blamed post-M&A failure on “unexpected people problems”.

These statistics underline the value of focusing on building trust during a corporate venture. The author and consultant Edward Marshall writes: “If people are aligned in a common strategic direction and trust each other’s motives, then all will ‘move faster’ – all saving cost and time to both parties and increases the chances of achieving end value goals. In a hostile takeover there is even greater risk, with target and acquiring firms often suspicious of each other’s intentions, and claiming the other party’s lack of trustworthiness.”

Better access to capital

Amid the recent tough economic conditions, getting funding from banks or other sources has been especially challenging for many companies. By building stronger trust with credit institutions companies can gain better access to sources of funding and achieve more favourable terms.

While each lending situation a bank reviews is different, most banks considering advancing a loan apply some variation of the “Five C’s of Credit” to help them make the lending decision: Character, Capacity, Capital, Conditions, and Collateral. How much you are trusted (to ultimately repay your loan) is a key aspect of evaluating “Character”.³

Trust also has a positive effect of trust on investments that is highly significant both statistically and economically. Looking at interpersonal trust across 15 European countries, research found that a 1% increase in those who have high trust towards another country implies an almost 7% increase in the probability of a venture capital investments in a company in that country. By the same token, evidence suggests that lack of trust imposes a hurdle for investments, including when seeking funding from non-banking sources such as venture capital providers.⁴

Smoother and quicker project execution with fewer delays and hurdles

Today’s complex and shifting stakeholder environments means gaining approval for projects; executing them effectively has never been more challenging. Building trust with local stakeholders and communities from the outset can help all parties understand and address any barriers to a project, as well as enabling participants to anticipate problems that might arise further along the project execution phase. The resulting savings in time, cost and resources can be substantial, particularly in relation to potential delays from non-technical issues, including stakeholder concerns that could trigger regulatory interventions.

Case Study: Oil & Gas Industry – Project Execution

In global oil & gas projects, non-technical or “above-ground” issues – which include partner/stakeholder relationships and environmental sensitivities – can account for up to 75% of cost and schedule failures. An analysis of 351 delayed/unfinished US energy projects indicated that successful completion of all these projects would add US\$ 1.1 trillion to the economy and create 1.9 million jobs in year one.



Ideas are infinite, and in the absence of competent execution, they are worth nothing ... Conversely, money in pursuit of outsized returns is plentiful. Thus, if both ideas and money are abundant, what is the scarce constraint in the fundraising equation? Trust. Skilled entrepreneurs bring ideas and money together by building a bridge of trust.



John Greathouse, Partner, Rincon Venture Partners, USA

2. Enhanced innovation and entrepreneurship

According to recent research by PwC, a higher degree of trust in management is the characteristic that most clearly differentiates innovative companies. This reflects the fact that higher trust companies tend to foster a creative culture that supports innovation, which in turn boosts competitiveness.

In particular, building stronger trust with stakeholders during innovation and R&D processes means employees feel more comfortable raising new and disruptive ideas, even during the early stages of programmes. Put simply, people are more willing to “stick their necks out” without fear of being shut down. It is no coincidence that entrepreneurship and trust are also correlated.⁶

In the context of entrepreneurial innovation, it is significant that the factor with the greatest influence on people's perceptions of organizational "climate", and hence on their creative performance, is the behaviour of the role models and leaders they see around them. This points to a culture of encouragement rather than coercion; a readiness to consider new ideas rather than rejecting them out of hand; and a focus on influencing behaviour through trust rather than control.⁷

At the same time, innovation is now increasingly driven by collaboration, which in turn demands trust. The IBM Global CEO Study shows that more than half of all CEOs are partnering extensively to drive innovation, with companies that outperform the market partnering for innovation more aggressively than their less successful peers. The PwC Innovation Survey found the most innovative companies collaborate over three times more often (34%) than the least innovative ones (10%), with the GE Innovation barometer showing lack of trust in a partner company being one of the key barriers for not collaborating with other companies.⁸

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If you don't have a culture where people feel that it's OK to take a risk, with the understanding that the risk could fail, you're unlikely to have much innovation, and a willingness to take on risk is all about trust.

”

Alan Webber, Co-Founding Editor, Fast Company, USA

3. More loyal, productive and engaged employee relationships

The costs of high staff turnover are substantial – and go far beyond additional HR costs. The Fortune 100 Best Places to Work study shows that companies with higher employee trust are also more profitable. Moreover, organizations with engaged and involved employees are significantly more likely to retain key talent than organizations with less employee trust.

However, according to the same research, the unfortunate truth is that the majority of people are unhappy in their jobs, even if they do not actually quit.⁹ Other studies have found that factors such as lack of recognition, poor empowerment and bad relationships with managers mean that three-quarters of employees today would consider taking a new job and one-third are actively looking.¹⁰ All of these causes for leaving can be alleviated by building stronger trust.

Perhaps most strikingly of all, having a job where trust in management is ranked one point higher on a 10-point scale boosts a person's satisfaction with their life as much as a 36% increase in income. Companies with high trust do not necessarily need to pay a premium to convince their employees to stay.

Hays Group estimates that global levels of staff turnover are currently running at an average of around 22% per year. An analysis of data from PwC Saratoga and the International Labour Organization suggests that for a Chinese company with 10,000 employees, this level of annual turnover would mean a loss of US\$ 5.4 million in recruitment fees alone. For a similar-sized US company, the loss would be US\$ 7.3 million. So there are hard, bottom-line benefits to building strong trust with employees – and that this should be a business priority for all organizations.

Fortune 100 Best Places to Work

Two-thirds of each company's ranking score is based on the Trust Index survey.

- Top-ranked companies experience up to 50% less staff turnover than their competitors.
- Looking at the results over the past 10 years, Trust Index scores and profits are correlated. Where the trust index survey rises by more than half, profits increase 12-fold.
- Top workplaces produce three times the cumulative market return when benchmarked against Russell 3000 or SAP 500.

Barriers

Top reasons for not collaborating with other companies



Source: GE Innovation Barometer 2013

Case Study: US and Canadian Hotel Industry Survey – Cornell University

- This study shows that hotels whose employees believe their managers keep their promises and behave in line with their values are more profitable.
- An improvement of one-eighth of a point in a hotel's trust score on a five-point scale could be expected to increase the hotel's profitability by 2.5% of revenues – a profit boost of US\$ 250,000+ per year per hotel.
- No other single aspect of managers' behaviour measured in this study has as large an impact on profits.

4. Stronger external relationships up and down the value chain

Positive and trusting relationships with suppliers and customers are the lifeblood of any successful business. Most companies understand how building customer trust can impact their revenues. But fewer focus on their suppliers to the same extent – even though supplier trust can also have a significant impact on the bottom line and the ease of doing business.

When looking at customers, the effects of trust-building on brand loyalty and repeat purchasing – and the knock-on impacts on profitability – are substantial. In simple terms, the more the customer trusts a supplier the greater its loyalty, with consumer research indicating that trust drives 22% to 44% of overall customer loyalty. And reducing customer defections by 5% can increase profitability by between 25% and 125%. As a result, organizations with loyal customers are twice as likely to exceed the forecasts of financial analysts, and deep, trusting customer relationships create faster and larger repeat purchases.¹⁶

Case Study: US Automotive Industry – OEM Benchmark Survey

This survey measures manufacturer-supplier relations in the US automobile industry. Trust and relationship-building emerge as key factors.

- Toyota and Honda are rated as the most preferred companies to work with and also the most trusted.
- The US Big Three – Ford, GM and DaimlerChrysler – are found to struggle with supplier trust.
- Supplying a component to one of the US Big Three costs 8% more than supplying a similar part to Toyota or Honda.

5. Greater resilience to withstand shocks and crises more effectively

In turbulent times ranging from economic downturns to company-specific crises, having a solid reputation significantly increases an organization's ability to ride out the crisis conditions and move on. Being trusted is not the same as having a strong reputation. But research into the attributes that drive reputation found the top four factors are all related to trust – in turn underlining the fact that trust is a vital element of reputational resilience.

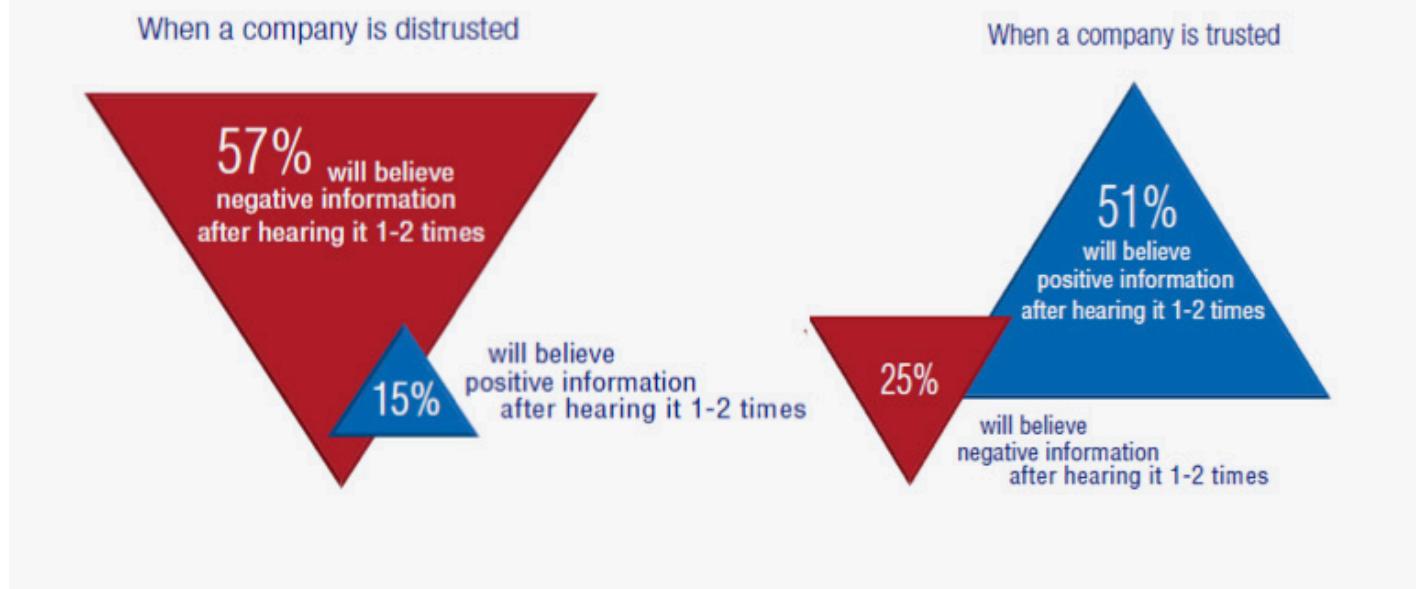
Factors most important to a corporate reputation



Source: Edelman Trust Barometer™

Even during more economically prosperous times, all companies will at some point need to deal with an event or incident with the potential to damage their reputation. When such an event arises, trust can help to mitigate its impact and provide a breathing space for action to address the underlying issue. By making stakeholders willing to allow the company more time and leeway to respond, trust acts as a buffer when damaging incidents happen, and also increases the business's ability to repair the damage afterwards.

Impact of hearing negative information



Source: Edelman Trust Barometer™

But managing trust with multiple stakeholders is a complex undertaking, as their needs will hardly every be fully aligned with each other. The ability to evaluate how various events or actions will be perceived by different stakeholders is vital to effective multistakeholder trust-building.

Case Study: Mattel, The Rest of the Story – Institute of Business Ethics

- In July 2007, a retailer flagged Mattel's Fisher-Price products had illegally high levels of lead-tainted paint.
- By end of 2007, Mattel had recalled more than 20 million toys from 43 different markets. The costs were estimated at US\$ 40 million, and the company's stock price fell by 30% in five months.
- Mattel's handling of the recall was effective. It salvaged customer trust and retained profits.
- However, during the process of apologizing to the public, Mattel publicly and vehemently blamed the fault on its Chinese suppliers – a fact that later proved to be incorrect. This misstatement destroyed trust with the Chinese suppliers who produce 65% of Mattel's products, and resulted in Mattel having to issue a public apology to their suppliers and the Chinese government for potential damage caused to Chinese manufacturing industry.

A New Approach to Trust

As discussed earlier, building trust is a cornerstone of a business's licence to operate, and can bring tangible benefits. This has driven many business leaders to talk publicly about trust, acknowledge why it is important and engage in trust-building activities. So why is there still an issue with public trust in business?

The uncomfortable truth is that the general public and other business stakeholders have struggled to trust business in recent years. Some would claim that – even before people see firm evidence either way – business now starts out as mistrusted rather than at a neutral trust level.

Yet it appears that many businesses are either unaware of this trust deficit or think it does not apply to them. Here is the contradiction:

- Research shows that 49% of the general public say they do not trust business to do what's right, but only 37% of CEOs are concerned about trust in their industry, with building trust coming last in the list of critical challenges leaders expect to address in the coming year.
- C-suite leaders are more positive about trust levels in their organizations than their employees are. For example, compared to their employee population, CEOs are three times more likely to see their organizations as self-governing, more inspiring and less coercive.

Despite the widespread efforts to build trust, it is clear the problem has not been solved. So the current approach is failing, suggesting it may be intrinsically flawed. What is needed is a fundamental process change – and the first step towards achieving this is to pinpoint what the intrinsic flaw is.

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64% of the public did not believe that companies' marketing and comms were backed up by the way they behaved and interacted with customers.

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Fishburn Hedges Group

The difference between the public and corporate view of trust

Research suggests that the key problem lies in an underlying and far-reaching misalignment between how businesses and the public perceive trust.

Given that businesses have a diverse array of stakeholders, each with their own interests and values, building trust will always be a trade-off between the demands of different parties. However, despite this complexity, there is a consistent pattern that differentiates corporates perceptions from the general publics.

When the public thinks about trust in business, they think more about values and how an organization behaves. For example, when members of the general public were asked why they do not trust business, they talked about issues such as corruption and fraud. Issues around fairness and equality were also important.

But when business leaders think of trust in business they focus more on delivery and product. Research among business leaders found that when they were asked about how businesses can build trust, they talk more about transactional factors such as customer service and products. This is not to imply that the public does not care about the transaction or product – just that it is not enough on its own. If a company is to build strong, resilient trust, its values and behaviour will play a critical role.

Talking past each other

The public is willing to bestow trust on business in return for better behaviour, greater transparency and a higher willingness to engage in co-creation. Yet business approaches trust from a more transactional angle, focused on delivering against its promise as a product and service provider.

This profound difference in thinking and language has created an environment where business and the public are “talking past” each other on what is important in order to be trusted. This creates the likelihood that while many companies believe they are focusing their efforts on building

and/or regains trust, these strategies may in reality have little or no influence on their stakeholders' trust in them. Until this gap is bridged, significant and lasting change will remain out of reach.

Towards a new settlement for building trust

So what can business leaders do to overcome this difference? When we examined the various factors that shape corporate trust, we found that trust issues span the spectrum from delivery on one side to values on the other; and involve elements ranging from a core of required elements for building a trusted relationship, to a set of more highly-evolved desired trust-building elements.

The circles in the chart represent the contrasting trust perspectives of the general public and business leaders, with the intersection being the area where the two overlap. Trust through delivery is built when a company delivers operationally against a stakeholder's expectations of a core product or service delivery transaction. Building trust through values occurs when the public believes a company's behaviour to be responsible and fair. In between delivery and values are activities that focus on the contribution a company makes to society.

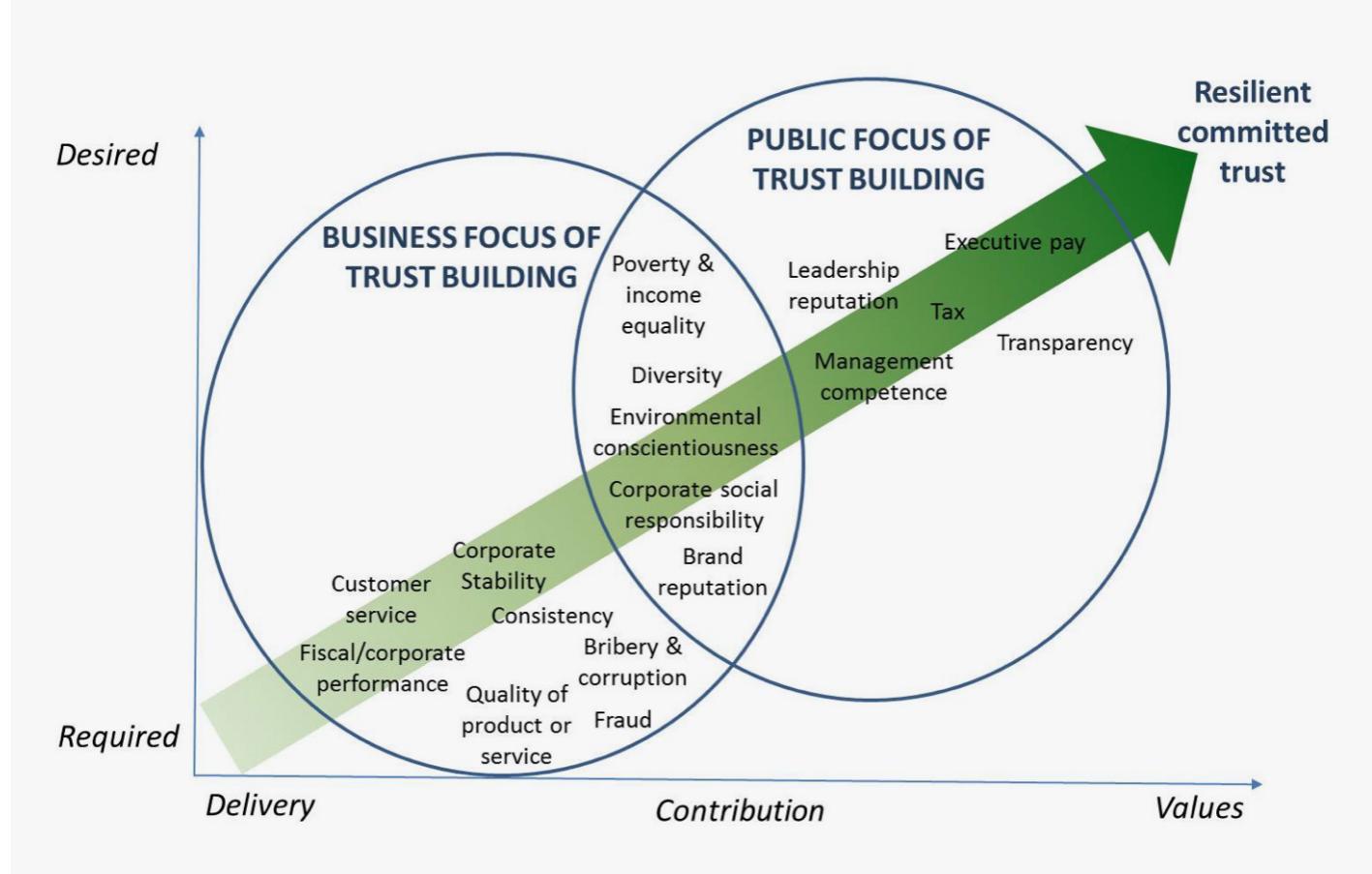
Looking across the spectrum from required to desired elements, the required ones are not necessarily easier to implement, but are those that research suggests most companies need to address in order to start building a trusted relationship. Conversely, the public's greater focus on contribution and values does not mean consumers do not care at all about the delivery – just that delivery alone is not enough.

Whatever approach is taken, the first step for any businesses seeking to bridge the gap between the corporate and public views of trust is to conduct open and honest self-evaluations.

- Which stakeholders will really drive future success and impact a business' licence to operate?
- Which stakeholders' wishes will not be fulfilled, and what will the consequences be?
- How is the company going to communicate with its stakeholders, both those whose needs it will and will not be fulfilled? How will the business deal with this?

While this framework should not be taken as comprehensive, it does offer a way forward and a useful basis for furthering discussion and tackling trust issues.

A New Settlement on Corporate Trust



Realities of building trust

For business leaders who seek to apply this framework to create a new settlement for trust in their companies, we have identified nine key realities to bear in mind. These consist of five success factors and four barriers.

The five success factors for business leaders are:

1. *Understand that trust is a multistakeholder networked relationship and bringing multiple stakeholders together collectively can create a stronger dialogue.* To address trust issues effectively and consistently across stakeholder groups, businesses will need to move its dialogues beyond stakeholder silos into genuinely multistakeholder initiatives and close engagement.
2. *Be prepared to work within the system, rather than trying to work the system.* Business can no longer be opaque and private if it is to be trusted. To be found to have manipulated the system destroys trust, and in some cases even destroys businesses.
3. *Acknowledge what leaders can and cannot do.* It is impossible to achieve everything wanted by all stakeholders; there will always be trade-offs. Being open about unrealistic and unachievable expectations is essential.
4. *Recognize that measures are not absolute and outcomes may not be perfect.* Building trust is a journey rather than a one-off solution. Perfection will never be reached and progress can go up and down. These qualities sit in opposition to how businesses tend to define and measure their success.
5. *Recognize when you may need to apologize publicly.* Accepting responsibility for shortcomings and demonstrating the human and fallible element in business is core to building trust.

The four barriers for business leaders are:

1. *Expecting to always be in control.* Creating a new settlement for trust involves ceding a measure of control in order to work openly and authentically with others within a collaborative system.
2. *Trying to please all your stakeholders all of the time.* Businesses and their leaders are affected by a vast array of stakeholders, many of whom may have competing or even diametrically opposed interests. Dilemmas and criticism from some quarters will occur, but being upfront about when stakeholder needs are not met and effectively communicating reasons in these instances will strengthen trust in the long term.

3. *Wanting to be seen publicly to always know the answer.*

Not being able to provide a solution to a problem is an uncomfortable experience for any business leader. But whether it is with employees or other stakeholders, understanding the power of expressing vulnerability and then working inclusively with stakeholders to resolve issues is vital to building trust. As Trusted Advisor Associates CEO Charles H Green pointed out in a recent blog, building trust means getting “heavily personal”.

4. *Not wanting to be the first mover on trust-building in an industry for fear of losing profitability or competitive advantage.* Addressing some trust issues may cost money or make a company appear less competitive in the short-term. However, in the longer term, addressing trust issues will help build a more successful and resilient business.

Given these hard realities, where can business leaders turn for guidance and successful examples of possible next steps?

“

Leaders who trust people with the truth, hard truths, are trusted back.

”

Dov Seidman, Founder and Chief Executive Officer, LRN, USA

Alternative Approaches to Building Trust

To seek out and identify alternative ways of engaging to build trust, we first looked at approaches used in specific corporate functions – usually focused around services or products – that involve bringing stakeholders together.

The primary aim of these techniques is usually to encourage collaboration and cooperation. However, we have found that they can also be effective in helping to build and progressively reinforce the trusted values and behaviours of a company.

This effect has been summed up by Gary Allen and Louis Musante of Echo Strategies: “Whatever that degree of collaboration, successful collaboration invariably leads to an increased level of trust, which then allows a higher degree of collaboration. Thus, while trust is a prerequisite to collaboration, collaboration is itself a tool for increasing trust.”

Case Study: Burberry Community Marketing, Product Development and Sales

Burberry has established itself in recent years as one of the world’s most digitally advanced fashion brands. The company’s entire approach to marketing is increasingly based on an aggregation of online conversations between employees and customers, both online and in-store, aided by technology – a form of bottom-up community marketing.

In addition to monitoring everything that gets said about its brand, the firm pre-tests many aspects of its marketing and communication content through a Salesforce.com software application called Buddy Media, meaning the brand itself is increasingly co-developed with the community. External stakeholders can even suggest designs for the next trench coat.

This social platform is a key enabler, and by integrating its retail, digital and merchandising platforms, Burberry has now created a socially driven enterprise that delivers a seamless multichannel experience between the company and its customers. However, the ultimate power of the Burberry model lies in the power of the co-creation that it unleashes between the firm’s internal sales, service and marketing people, and its customers.

Burberry has used the integration of digital platforms to bring its customers closer to the company. This integration also allows for a smoother buyer journey, which delivers operational trust. At the same time, the integration into social digital platforms means the customer is no longer just part of an external audience, but a trusted participant in the evolution of the product, strategy and ultimately values of the company. This participation and intimacy with the brand in turn builds even deeper trust.

Taking on board lessons that can be learned from private sector and the changes under way in public-private partnerships, some public agencies have also been adapting how they work with their stakeholders to enhance collaboration and trust.

Case Study: BritainThinks Sets Up “Citizens’ Jury”

In the UK, the government-run National Health Service (NHS) and PwC commissioned the strategy advisers BritainThinks to convene a “Citizens’ Jury” to explore response to a new NHS patients’ charter.

A Citizens’ Jury is a method of deliberative research, in which citizens are brought together to shape public policy through participation and deliberation. The juries provide opportunities to explore issues of which the public may have little or no knowledge, that are relatively complex and where there is more than one possible solution. Participants are given the time to absorb information, work with experts – sometimes over several days – and deliberate among themselves to share ideas and viewpoints and develop informed recommendations.

The Citizens’ Jury technique aims to give people the time and space to consider complicated trade-offs and look at issues through the eyes of those with different circumstances, thus encouraging them to move from a personal to a “citizen ambassador” perspective. In the case of the NHS juries, the process enabled jurors to arrive at strong, well-considered and thoughtful recommendations, underpinned by a genuine shift in perspective from personal consumers of healthcare services to ambassadors for the nation’s citizens.

This approach exposes members of the public – the “citizens” – to the development of public policy prior to launch. But more than that, it actually enlists members of the general public to help shape that policy as co-creators. Observing the journey of understanding that the members of the public went through also provided valuable lessons, helping PwC and the NHS to understand where barriers to understanding might arise after the launch of the charter, and how these could be overcome.



Looking Forward

The fact that every business is unique means there is no one-size-fits-all perfect approach for building trust. However, there are common principles. Crucially, those businesses that are most effective at building trust consider both the trust implications of their long-term business strategies and also the trust repercussions of responding to a crisis.

If these trust-rich, more resilient companies are the survivors of each period of turbulence, then they will come to dominate the market – and the model of the high-trust corporation will become prevalent. The challenge is to create a critical mass of business leaders who understand the magnitude of the issue, see the value of investing in solutions, and are willing to commit to the execution of long-term change.

This is not the end of the journey. But we hope we have helped to map out the way ahead.

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