

A business's long-term survival and success depends on its ability to build and sustain trust.

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Trust: the overlooked asset

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A small word that makes a big difference

In an era of increasing connectivity and intensifying public scrutiny, trust is the lifeblood of any organisation – a critical asset in ensuring a business’s long-term survival and success. The aftermath of the recent financial crisis has demonstrated both the vital importance of trust, and the severe consequences to economic prosperity when it is undermined by perceived untrustworthy behaviour.

How important is the issue of trust to your organisation?

Paradoxically, this essential asset – a cornerstone of every business’s future strategy – doesn’t appear on the balance sheet. It is a concept that does not figure in any financial reporting.

As a result, trust is widely overlooked at a time when it is actually more pivotal than ever. And in our view, underestimating trust is a fundamental mistake. Recent events have demonstrated that organisations need to examine how they can bring building and sustaining trust back into the core of their corporate and business culture.

This is the first in a new series of papers on trust in which we seek to shine a light on the importance of trust and generate insights and questions around the pivotal role it plays in business.

These questions will not necessarily have right or wrong answers. So, rather than looking to provide hard-and-fast solutions, our aim in these papers is to explore the complexities around how trust works, and highlight some of the challenges and dilemmas facing today’s businesses as they strive to earn and sustain it.

‘Society has lost trust in business and we need to regain this trust.’*

Niall FitzGerald, deputy chairman of Thomson Reuters

*Speaking at a lunchtime ceremony of the 37th Annual Thomson Reuters Emtel survey results, London’s Guildhall, 15 June 2010.

Trust matters

Why? What does trust do?

Ultimately, we believe it builds confidence, faith and a sense of belief in an individual or an organisation. What's more, it fundamentally underpins all successful social organisations – and its principles apply equally to the whole of a society, a country, a business or a family. Typically when something goes wrong in your personal life or you need advice, you go to someone you can trust. Is business or other commercial activity any different? We think not.

Does your organisation devote time and energy to building and sustaining trust?

Having trust brings us a sense of safety and security, and makes a whole range of things possible for which there are no guarantees. For example, in a business context it means that we can commit to actions and take decisions faster, that we find it easier to attract and retain talented employees, and that we have the confidence to get an innovative project or initiative off the ground.

Do you understand your organisation's levels of trust, both within and from outside?

While trust may not be listed as an item on the balance sheet, we see its impact on businesses all the time. A writer in the Financial Times recently referred to a hugely successful television advertising campaign by John Lewis, the UK retail stores group, and explained the success of the campaign with the words: 'But John Lewis has the priceless asset of public trust'. In other words, trust is intangible – but its effects are anything but. People pay a premium for proven products and services. Why? People understand and trust what they are buying.

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 Lehmans, Toyota, BP, and Northern Rock.

Despite such glaring examples, trust often does not appear to be clearly understood, or its importance fully factored into the business model. Executives may talk about trust in broad corporate terms, but the extent to which the trust agenda consciously lives and breathes within organisations 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.

'Where there is trust there is hope'

Charles Handy, author

Do you assess the trustworthiness of all your key stakeholders?

At PwC, we are focusing on the implications of the recent changes in the landscape of trust, both for our organisation and others. And we have come to the view that, in this post-crisis era, going back to 'business as usual' without any reappraisal of current business models is not an option. If we all allow confidence in business to continue to diminish, we will simply lurch on to another crisis.

Do you focus solely on revenue growth or is it just as important to your organisation how this wealth is created?

Against this background, we believe that the crucial challenge for any organisation is to translate the concept of building and sustaining trust from theory into practice, and take whatever steps are necessary to embed it into its organisational DNA. There is no single, universally applicable solution for doing this. In earning the right to create, sustain and grow trust, each organisation will face its own specific set of dilemmas – and on [page 9](#) we highlight some examples of these dilemmas to help stimulate further thinking and debate.

However, while there are no right answers, we believe that seeing and valuing trust as an asset to be built, managed and protected – in the same way as more tangible business assets – can enable organisations of all types to turn this important but elusive concept into a source of real competitive advantage.

Increasingly, companies are facing the challenge of developing corporate KPI's beyond finance that can be used to assess their strategic success. So should they build 'trust' into the equation and make it part of these KPI's? While it is hard to measure, trust should be a key component of boards' and shareholders' agendas as we move into a more volatile and challenging era.

'Without trust, words become the hollow sound of a wooden gong. With trust, words become life itself.'

John Harold, poet

'To be trusted is a greater compliment than being loved'

George MacDonald, author

The dynamics of trust

So how does trust work?

A vital attribute of trust is that it must be earned, and cannot be bought or claimed through assertion. It is the outcome of a relationship, and represents the net result of how you behave or act in line with a person's expectations. So, if you consistently exhibit behaviours that engender trust – if you behave ethically, reliably, honestly and competently, do what you say you are going to do, and act in the best interests of those you are there to serve – then you will be regarded as trustworthy.

Are you clear about the cultural values you commit to and promote?

This all sounds fairly straightforward. But here the complexities begin to multiply.

Why? Because, while trust is a universal concept, not everyone perceives it in the same way. Trust is in the eye of the beholder – and individuals bestow their trust on the basis of their own values and perspectives, which can be influenced by background, experiences, geography and diversity, among other factors. Everyone has a different lens through which they view and judge the behaviours and actions of another person or organisation. So the deceptively simple concept of trust can prove to be hugely complex in practice.

Given that the essence of trust is in the eye of the beholder, it follows that the most effective starting point for building trust is at a personal level. At root, organisations are themselves networks of individuals. So, in order to build trust, they need to think about how they map and manage those multiple relationships, both internally and externally. Of course, it is not always possible for every relationship to be managed at a personal or individual level, and this is where brand and reputation become important. These are the outward manifestations of a shared organisational value system; a system set by the tone from the top, reinforced by the individuals within it, and understood by the external market.

***'It is...
happier to be
sometimes
cheated, than
not to trust.'***

Samuel Johnson, poet,
critic and writer

Are you open and transparent about who you are and what you do?

At best, this system becomes a hugely valuable and almost invisible transference of the internal combination of individual and corporate values and behaviours to the external marketplace. When this transference is working well, trust can be built almost imperceptibly.

However, more explicit actions are also needed. At a more perceptible level, openness and transparency about who you are and what you do as an organisation are important ingredients to building trust, providing the reliability and accuracy of information can be verified.

So, building trust takes time, and increases through use and trustworthy experiences. Trust is also a two-way street; the more you are prepared to trust the more others will trust you. But, as we have seen, trust can be lost in an instant and should not be taken for granted. And because placing trust in others brings risks, it must not be awarded lightly. Building trust requires patience and discipline and must be continuously earned and reinforced through the right behaviours. This means complacency on either side can be the enemy of real and sustained trust.

‘At some point we just have to trust.’

Onora O’Neill, philosopher

The moment of truth for trust

Does trust only matter in times of a crisis?

Trust is particularly valuable when a crisis hits, because it is during difficult times that it is most heavily tested and measured. If the crisis is dealt with in precisely the way you would expect, then trust will be retained or regained more quickly. But if the response to the crisis is to behave in a way that runs counter to people's expectations, then doubt and suspicion can creep in overnight.

Do you know how your stakeholders expect you to behave in good times and in bad, and are you meeting those expectations?

The flip-side of this is that in the absence of a crisis, there is little measurable proof that trust has actually been created. As trust must be managed continuously, this raises a challenge for managers to keep on paying it the attention it demands when there is no immediate disaster or crisis.

In our view, this means organisations must be on their guard, and should build a fund of trust as a defence against the unpredictability of future events. If a business has trust, then it can draw on it during that time. If it finds it has mislaid it, or never had it in the first place, then the results can be disastrous. The queues of customers demanding the return of their money from branches of Northern Rock demonstrated this risk in dramatic terms.

Being honest and open in a crisis builds trustworthiness, and puts you in a stronger position as you emerge from the

difficult times. The value of this process can be seen and understood in simple personal transactions. The airline that loses a passenger's bags but manages to restore them swiftly and with grace, charm and courtesy, will gain the benefit of enhanced trust as that passenger tells and retells the story of how a potential disaster was transformed into a positive experience.

Such events underline the dual role of trust, as both a defence against the future and an asset bringing long-term competitive advantage.

'For it is mutual trust, even more than mutual interest, that holds human associations together.'

H L Mencken, author

Moving towards a culture of total trust

How do you do this? And where should you start?

The tools for building trust are different from those used for a conventional asset. We have already set out our view that trust is both personal and collective, and is simple yet complex. It belongs as much in personal life as in business life, and – like anything else that straddles these boundaries – is hard to pin down. In personal life, trust is understood as the basis for any long-term relationship. In wider society trust is seen – at the very least – as a cultural aspiration. It is about simple, ethical, honest behaviour. It is having the integrity to do the right thing.

Does your organisation celebrate and reward 'doing the right thing'?

That is how trust is seen in life outside the boardroom, the finance function and the corporate entity. Within business, our experience suggests that trust – as the 'overlooked' asset – is widely understood, but only on a personal level. It is not always transferred automatically into the culture of a business. This is where the real work needs to be done. The corporate and business world still relies on the old ways of measurement – under which the tangible assets that can be calculated on a spreadsheet are much easier to deal with.

Are you clear who the guardians of trust are within your organisation?

The intangible asset of trust cannot be measured and tackled in this way. This is a challenging obstacle, but organisations need to try to tackle it. Trust has to be understood and brought actively into the corporate mix in a natural way.

In PwC's 13th annual global CEO survey, Paul Walsh, CEO of Diageo, summed up this challenge succinctly. 'An attempt by business to launch a campaign to restore

trust would very quickly be seen, I think, as propaganda and could quickly backfire', he said. 'There is no silver bullet here. We've just got to go about our business while trying to up-weight our dialogue with as many stakeholders as possible'.

So trust needs to become an embedded part of an organisation's DNA. It really has to matter on a day-to-day basis and pervade the organisation. This demands a step change in all relationships within, across and beyond the organisation, taking them to a level that most individuals would hope to have in other relationships outside the business world. Everyone involved needs to find new ways of dealing with one another, creating relationships in which building trust and embedding, celebrating and rewarding trustworthy behaviours is business as usual. Leaders of the business need to embody the values of the organisation, and to be seen to be doing so.

Publicly identifying trust as a key strategic goal will be a challenge for many organisations, partly because it is difficult to measure. But we believe that companies should be brave, and build trust into their strategic agenda and report on it. In the new interconnected world, such an approach reflects trust's important role in helping to build and restore confidence in the capital markets, with employees, with customers and with other stakeholders.

This means the 'tone from the top' is a vital ingredient in making trust part of the corporate DNA. The right example from senior management will help to create the right architecture to support the creation of trust – the right information flows, the right culture, the right values, the right behaviours, and so on. However, each organisation will have its own complex web of relationships – internal and external – that contribute to building the trustworthy organisation.

Trust is what gives business a future

Can it be left to its own devices?

Unless trust is nurtured actively as a fully functioning and hugely productive asset, we believe that business faces a bleak future. Businesses need to see themselves in the context of a broader network of which they are a part, with society, government, regulators and individual stakeholders all involved, dependent and impacted by their actions.

What actions does or should your organisation take to instil trust?

For many organisations, this is a new environment. It marks the end of the era of concentrating narrowly on maximising shareholder value – a concept that is at best outdated, and at worst can prove toxic to a company, its business partners and society in general. For too long, the unfettered culture of shareholder value has blinded business to the true means of long-term sustainability and survival.

Trust is all about hearts and minds, but it would be wrong to assume that this means it is a 'soft' idea. It is as tough as nails. Earning real trust is what lifts a business towards long-term survival and success. Ultimately it is a very human dynamic, based around the widening out of personal responsibility onto a collective scale.

In the final analysis, trust legitimises business to do what it does. The past few years have shown that the complex world we live in is not nearly as secure as people once thought. We would go so far as to suggest that trust is **the** essential asset that will define the businesses of the future, and shape the different and changing environments in which they can thrive. Without trust at its heart, PwC's view is that the business world will run into insurmountable problems that will make the recent financial turmoil resemble a minor blip. It is that clear-cut – and that important.

'In seeking to repair the financial system and the wider economy the key will be creating policies and institutions which help regain and nurture trust'

Sir Gus O'Donnell, Cabinet Secretary

*Sir Gus O'Donnell's lecture, inaugural Pro Bono Economics annual lecture, the Royal Society, London, 13 July 2010

Dilemmas on trust

Are you ready to build the right environment for trust to thrive?

In starting to tackle the issue of trust, each organisation will face its own set of challenges that go to the heart of its strategy and vision. In our view, there is no single one-size-fits-all solution to these issues. Instead, each business will have to consider a series of dilemmas, each of which will have several possible solutions depending on the nature of the organisation. Here is a selection of possible dilemmas together with some of the questions that may arise in relation to each:

Total transparency *versus* selective transparency

Are you telling it as it is about who you are and what you do?
 ▶ How confident are you that people will like what they see?
 ▶ Are you clear about any sensitivities or commercial risks that prevent you from being as open and transparent as you'd like to be? ▶ What do you actually want people to know about your business – your thinking, actions and discussions?

Trust only matters in a crisis *versus* trust matters all the time

How conscious are you about this issue of sustained trust?
 ▶ Have you sought feedback on your organisation's levels of trust internally and externally? ▶ Do you know how your stakeholders expect you to behave in good times and bad? ▶ Do you really believe that your organisation is trusted? ▶ Are you prepared for all eventualities, or do you simply react to events?

Principles *versus* rules

Does your organisation regulate for trust e.g. codes of conduct, or do you trust your people to take personal responsibility for doing the right thing?

Tone from the top *versus* tone from within

Are you clear about the values you commit to and promote?
 ▶ Is tone from the top enough, or is building an ethical culture everybody's responsibility? ▶ Do you promote command and control or self control? ▶ Who are the custodians of your tone from the top? ▶ Have you correlated the success of your business with the tone of your culture?

Financial performance *versus* stakeholder performance

Do you focus solely on revenue growth or is it just as important to your organisation **how** this wealth is created? ▶ To what extent do you look beyond financial performance to measure your stakeholders' experiences of your organisation, through metrics such as employee engagement, customer loyalty and social responsibility? ▶ Do you reward financial performance over other performance indicators?

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