The ROI of Trust

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Over the past year, our ability as a country, as a workforce, and as individuals to trust in our most basic institutions has been deeply and repeatedly shaken. Our government, our religious institutions, and many high profile businesses are lying, denying and justifying actions that are reprehensible. No longer do they happen at a distance: few people were touched by the junk bond debacle; the savings and loan scandal cost the government money but happened at arms length from most of us. But the recent events of WorldCom, Enron, Anderson, Tyco, Global Crossing, and possibly others, have touched most of us in some way. Economically, we look at the effects on the market; personally, we look at our own investments, 401K's and retirement funds. Globally, we look at ravaged savings plans and thousands of layoffs. Personally, we wonder whom we can trust anymore.

And this is not a problem affecting only big corporations. Mid-tier, privately held, and family run businesses are impacted by employees that wonder whether the "party line" they hear represents truth, and whether security is a myth. Trust is on the run. And it is an expensive race. What is the Return on Investment (ROI) of Trust? Why is it so critical to maintain and so difficult to rebuild?

In our work with different industries and with executive teams around the world, issues of trust between individuals, within project teams, or between companies are commonplace, usually supercharged, and often difficult to resolve. Part of the reason for this is that the experience of <u>trust and distrust</u> goes very deep. Trust involves risk, and with it often a sense great vulnerability – and we feel betrayal and tremendous anger when these bonds are broken. Trust involves a suspension from the tremendous psychological linchpins of Predictability and Control, which serve to minimize anxiety and allow us to put a large piece of our lives in the hands of others. As the saying goes, people will throw themselves in front of a bus for you if they trust you but will push you under the bus if they do not.

Let's define Trust:

- Like integrity, it's what you do when no one is watching. In its pure form Trust involves a lack of monitoring – a belief that people will do the ethical and "right" thing without your looking over their shoulder. Micromanaging never engenders or communicates trust.

- Trust involves a sense of benevolence – the belief that your interests will be well represented by another. So even if you are not present, the person or trusted institution will watch out for you.

- Trust also requires "say-do" parity – the belief that what is said, or promised, is what will be done. This is credibility at its finest and a foundational aspect of building, maintaining, or repairing Trust.

While we could continue to define other variables related to trust, let's look at cost. The cost to investors of the latest scandals is documented every day. But what are some of the other costs to companies and organizations that employ people, and who ask their workforce to be loyal and committed to the espoused values of the company? What is the ROI of Trust here?

- Recruitment / Retention – One of the great ironies is when we read of 15,000 layoffs in a company and have a discussion with another CEO, COO, or CFO who is describing the struggle to get good people to stay and great people to come. Keeping good and high-potential people is essential for an organization's future. Cost of replacement is generally at least one year's salary, plus the expensive indirect costs such as learning curve, organizational memory, morale, internal and customer relationships, etc. The "character" of a company and of its management is a selling point to potential recruits. A bad track record is difficult to recover from.

- Commitment / Loyalty –We ask people to work monster hours, to be committed to their work, to ascribe to the values of the firm. Ask yourself why an employee should be more committed to your firm than your firm is to her. What are the overt, hidden and opportunity costs of an employee who does only his job description and nothing more? Generally, the result of low trust is classic passive-aggressive behavior and work slowdown.

- Customer service – This is an obvious ROI, as secure and happy employees deal more effectively with the lifeblood of the company, your customers. Internal customer service and team participation are also impacted by trust issues and make a huge difference in productivity.

- Competitive advantage – There is a huge spectrum of ROI here. A workforce with low trust will not be creative. A workforce already anxious about an acquisition or merger cannot commit to or implement new behaviors at speed. An executive team dealing with a crisis cannot devise and implement good strategy. And the energy required to manage an anxious and distracted work force is tremendous.

Is there more here about ROI? Certainly. And most of it is obvious. The main point is that Trust is not soft and fuzzy. It is not a luxury or a "side dish" that can be ignored. The impact of Trust is very real with significant bottom-line impact. And it affects companies of all sizes and shapes. So what is the answer? What do CEOs, COOs, CFOs, key managers and others need to do to ensure that trust is maintained?

- Act with integrity and walk your talk. People will be watching what you do, especially when trust is low. Credibility is key here. "Say must equal do."

- Get out in front and communicate. While this may sound like management "pablum," your workforce and stakeholders need to know that you know what issues are important and worth talking about. If there are problems, explain them. If there is any history, admit it (they know anyway). Let people know how you operate. Reinforce your values and talk about how to live them.

- Make realistic commitments – and keep them! Don't over-promise and under-deliver.

- Trust, but verify. Trust does not mean "blind trust." Put rigorous measures in place. Ensure there are checks and balances. Reinforce all activities designed to keep your company safe and protected.

- Enforce the "No Sycophants" rule. Do not surround yourself with people who automatically agree with you. Vigorous dialogue, tough truths, and high transparency make for better decision-making and greater honesty.

- If you have a Board – make sure they know what is going on and that they have both financial literacy and big teeth.

Finally, get your Executive Team together and talk about the issue of building and maintaining Trust within your organization (real dialogue!). Get some outside perspective (interviews, surveys, focus groups) on how you are viewed by employees and customers. Be real honest. Decide on clear operating behaviors, enforce your processes, and craft an open communication plan that allows you to dialogue with your employees. Bottom line -- Trust is no longer optional – it is way too expensive.

Author's note:
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