Stuart Bradford

The Trust Crisis

Facebook, Boeing, and too many other firms are losing the public's faith. Can they regain it? by Sandra J. Sucher and Shalene Gupta

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The Big Idea Series / **Broken Trust**

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Businesses put an awful lot of effort into meeting the diverse needs of their stakeholders — customers, investors, employees, and society at large. But they're not paying enough attention to one ingredient that's crucial to productive relationships with those stakeholders: trust.

Trust, as defined by organizational scholars, is our willingness to be vulnerable to the actions of others because we believe they have good intentions and will behave well toward us. In other words, we let others have power over us because we think they won't hurt us and will in fact help us. When we decide to interact with a company, we believe it won't deceive us or abuse its relationship with us. However, trust is a double-edged sword. Our willingness to be vulnerable also means that our trust can be betrayed. And over and over, businesses have betrayed stakeholders' trust.

Consider Facebook. In April 2018, CEO Mark Zuckerberg came before Congress and was questioned about Facebook's commitment to data privacy after it came to light that the company had exposed the personal data of 87 million users to the political consultant Cambridge Analytica, which used it to target voters during the 2016 U.S. presidential election. Then, in September, Facebook admitted that hackers had gained access to the log-in information of 50 million of its users. The year closed out with a New York Times investigation revealing that Facebook had given Netflix, Spotify, Microsoft, Yahoo, and Amazon access to its users' personal data, including in some cases their private messages.

So, in the middle of last year, when Zuckerberg announced that Facebook would launch a dating app, observers shook their heads. And this past April, when the company announced it was releasing an app that allowed people to share photos and make video calls on its smart-home gadget Portal, TechCrunch observed that "critics were mostly surprised by the device's quality but too freaked out to recommend it." Why would we trust Facebook with personal data on something as sensitive as dating — or with a camera and microphone — given its horrible track record?

Volkswagen is still struggling with the aftermath of the 2015 revelation that it cheated on emissions tests. United Airlines has yet to fully recover from two self-inflicted wounds: getting security to drag a doctor off a plane after he resisted giving up his seat in 2017, and the death of a puppy on a plane in 2018 after a flight attendant insisted its owner put it in an overhead bin. In the spring of 2019 Boeing had to be forced by a presidential order to ground its 737 Max jets in the United States, even though crashes had killed everyone on board two planes in five months and some 42 other countries had forbidden the jets to fly. Later the news broke that Boeing had known there was a problem with the jet's safety features as early as 2017 but failed to disclose it. Now, customers, pilots and crew, and regulators all over the world are wondering why they should trust Boeing. Whose interests was it serving?

Betrayals of trust have major financial consequences. In 2018 the Economist studied eight of the largest recent business scandals, comparing the companies involved with their peer groups, and found that they had forfeited significant amounts of value. The median firm was worth 30% less than it would have been valued had it not experienced a scandal. That same year another study, by IBM Security and Ponemon Institute, put the average cost of a data breach at $3.86 million, a 6.4% increase over the year before, and calculated that on average each stolen record cost a company $148.

Creating trust, in contrast, lifts performance. In a 1999 study of Holiday Inns, 6,500 employees rated their trust in their managers on a scale of 1 to 5. The researchers found that a one-eighth point improvement in scores could be expected to increase an inn's annual profits by 2.5% of revenues, or $250,000 more per hotel. No other aspect of managers' behavior had such a large impact on profits.

Trust also has macro-level benefits. A 1997 study of 29 market economies across one decade by World Bank economists showed that a 10-percentage-point increase in trust in an environment was correlated with a 0.8-percentage-point bump in per capita income growth with a 0.8-percentage-point bump in per capita income growth.

So our need to trust and be trusted has a very real economic impact. More than that, it deeply affects the fabric of society. If we can't trust other people, we'll avoid interacting with them, which will make it hard to build anything, solve problems, or innovate.

Building trust isn't glamorous or easy. And at times it involves making complex decisions and difficult trade-offs.

In her 15 years of research into what trusted companies do, Sandra has found — no surprise — that they have strong relationships with all their main stakeholders. But the behaviors and processes that built those relationships *were* surprising. She has distilled her findings into a framework that can help companies nurture and maintain trust. It explains the basic promises stakeholders expect a company to keep, the four ways they evaluate companies for trustworthiness, and five myths that prevent companies from rebuilding trust.

What Stakeholders Want

Companies can't build trust unless they understand the fundamental promises they make to stakeholders. Firms have three kinds of responsibilities: *Economically,* people count on them to provide value. *Legally,* people expect them to follow not just the letter of the law but also its spirit. *Ethically,* people want companies to pursue moral ends, through moral means, for moral motives.

What this looks like varies with each kind of stakeholder. To customers, for instance, economic value means creating products and services that enhance their lives; to employees, it means a livelihood; to investors, it means returns; and to society, it means both fulfilling important needs and providing growth and prosperity. Here's the complete set of stakeholder expectations:

The Fundamental Promises of Business

STAKEHOLDER	ECONOMIC PROMISE	LEGAL PROMISE	ETHICAL PROMISE
Customers	• To provide products and services that enhance their lives	• To follow consumer protection laws and industry regulations	• To make good on commitments • To disclose risks • To remediate mistakes made or harm done
Employees	• To provide a livelihood (pay, benefits, training, opportunity)	• To follow labor, antidiscrimination, and workplace safety laws	• To provide safe work conditions and job security • To treat everyone fairly
Investors	• To provide returns • To manage risk	• To fulfill fiduciary duties • To disclose material information	• To oversee employees' conduct • To abstain from insider trading and self-dealing
Society	• To offer employment and economic development • To fulfill important needs	• To follow local and federal laws • To work with regulators	• To protect public health, the environment, and the local community • To set industry standards

Of course, expectations can vary within a stakeholder group, leading to ambiguity about what companies need to live up to. Investors are a prime example. Some believe the only duty of a company is to maximize shareholder returns, while others think companies have an obligation to create positive societal effects by employing sound environmental create positive societal effects by employing sound environmental, social, and governance practices.

How Stakeholders Evaluate Trust

Trust is multifaceted: Not only do stakeholders depend on businesses for different things, but they may trust an organization in some ways but not others. To judge the worthiness of companies, stakeholders continually ask four questions. Let’s look at each in turn.

Is the company competent?

At the most fundamental level companies are evaluated on their ability to create and deliver a product or service. There are two aspects to this:

Technical competence refers to the nuts and bolts of developing, manufacturing, and selling products or services. It includes the ability to innovate, to harness technological advances, and to marshal resources and talent.

Social competence involves understanding the business environment and sensing and responding to changes. A company must have insight into different markets and what offerings may be attractive to them now and in the future. It also needs to recognize how competition is shifting and know how to work with partners such as suppliers, government authorities, regulators, NGOs, the media, and unions.

In the short term technical competence wins customers, but in the long run social competence is necessary to build a company that can navigate a constantly evolving business landscape.

Consider Uber. The company has weathered an avalanche of scandals, including reports of sexual harassment, a toxic corporate culture, and shady business practices in 2017, which led to CEO Travis Kalanick’s departure. Uber's losses that year came to $4.5 billion. And yet, by the end of 2018, Uber was operating in 63 countries and had 91 million active monthly users. We love Uber, we hate Uber, and sometimes we leave Uber.

We keep using Uber not because we don't care about its mistakes but because Uber fills a need and does it well. Consumers trust that when they put an order into Uber a car will arrive to pick them up. We forget how difficult that is to do. In 2007, two years before Uber's launch, an app called Taxi Magic entered the market. Taxi Magic worked with fleet owners, and drivers leased cars from the fleet owners, so there was little accountability. If a cab saw another passenger on its way to pick up a Taxi Magic rider, it might abandon the Taxi Magic customer. In 2009, another start-up, Cabulous, also created an app that people could use to book rides. However, that app often didn't work, and Cabulous had no means of regulating supply and demand, so taxi drivers wouldn't turn on the app when they were busy. Neither business achieved anything on the scale of Uber. We might have mixed feelings about Uber's surge pricing, but it helps make sure there are enough drivers on the road to meet demand.

Meanwhile, on a social level Uber has managed to transform the taxi industry. Before Uber, cities limited the number of taxis in the streets by requiring drivers to purchase medallions. In 2013, a medallion in New York City could cost as much as $1.32 million. Such sky-high prices made it difficult for newcomers to enter the market, and lack of competition meant drivers had little incentive to provide good service. Uber brought new drivers into the market, improved service, and increased accessibility to rides in areas with limited taxi coverage.

Still, we use Uber with mixed feelings. Uber achieved much of its growth

Still, we use Uber with mixed feelings. Uber achieved much of its growth by quickly acquiring capital, which allowed it to develop technology for fast pickups and to offer drivers high pay and riders low fares. At the same time it was a ruthless competitor that reportedly was not above using underhanded tactics, such as ordering and then cancelling Lyft rides (a charge Uber denied) and misleading drivers about their potential earnings.

We don't trust Uber to treat its employees or customers well or to conduct business cleanly. In other words we don't trust Uber's motives, means, or impact. This has consequences. Although Uber was projected to reach 44 million users in 2017, it hit only 41 million. Since then Uber's growth has continued to be lower than expected, and the company has ceded market share to Lyft. This year Uber's much-anticipated IPO underperformed after thousands of Uber drivers went on strike to protest their working conditions. The company's stock price fell by 11% after its first earnings report for 2019 revealed that it had lost more than $1 billion in its first quarter.

Is the company motivated to serve others' interests as well as its own?

Stakeholders need to believe a company is doing what's good for them, not just what's best for itself. However, stakeholders' concerns and goals aren't all the same. While many actions can serve multiple parties, companies must figure out how to prioritize stakeholder interests and avoid harming one group in an attempt to benefit another.

To determine whether they're doing right by all of their stakeholders, companies should examine their own motivations — by asking these three questions:

- Do we tell the truth?
- On whose behalf are we acting?
- Do our actions actually benefit those who trust us?

Honeywell is an example of a company that works hard to serve — and balance — the needs of all its stakeholders. Let's look at what happened there during the Great Recession, when it needed to reduce costs but wanted to keep making good on stakeholder expectations. Dave Cote, Honeywell's CEO at the time, explained how the company thought about that challenge: "We have these three constituencies we have to manage. If we don't do a great job with customers, both employees and investors will get hurt. So we said our first priority is customers. We need to make sure we can still deliver, that it's a quality product, and that if we've committed to a project, it will get done on time."

For investors and employees, he continued, "we have to balance the pain, because if you're in the middle of a recession, there's going to be pain….Investors need to know they can count on the company, that we're also going to be doing all the right things for the long term, but we're thinking about them. After all, they're the owners of the company, and we work for them….But at the same time we need to recognize that the employees are the base for success in the future…and we need to be thoughtful about how we treat them. And I think if you get the balance right between those two, yeah, investors might not be as happy in the short term if you could have generated more earnings, but they're definitely going to be happier in the longer term. Employees might not be as happy in the short term because they might have preferred that you just say to heck with all the investors. But in the long term they're going to benefit also because you're going to have a much more robust company for them to be part of."

During the recession, Honeywell used furloughs, rather than layoffs, to lower payroll costs. But it limited the scale and duration of the furloughs by first implementing a hiring freeze, eliminating wage increases, reducing overtime, temporarily halting the employee rewards and

recognition program, and cutting the company match for 401(k)s from 100% to 50%. The company distributed a reduced bonus pool as restricted stock so that employees could share in the stock's post-recovery upside. And Cote and his entire leadership team refused to take a bonus in 2009, reinforcing the message of shared pain.

To protect customers' interests during the downturn, Honeywell came up with the idea of placing advance orders with suppliers that the company would activate as soon as sales picked up. Suppliers were happy with the guaranteed production, and Honeywell stole a march on its competitors by filling customer orders faster than they could as the recovery began.

In the long run, those moves paid off for investors. During the recovery, from 2009 to 2012, they were rewarded with a 75% increase in Honeywell's total stock value — which was 20 percentage points higher than the stock value increase of its nearest competitor.

Cote also built trust with the public by moving from a previous approach of litigating claims for asbestos and environmental damage to settling them. Honeywell began to issue payouts of $150 million for claims annually, making its liabilities more manageable and easing investors' worries about future litigation costs. Cote also systematically went about cleaning up contaminated sites. That kind of attention to the interests of stakeholders gave people faith in the company's good intentions.

Does the company use fair means to achieve its goals?

A company's approach to dealing with customers, employees, investors, and society often comes under scrutiny. Companies that are trusted are given more leeway to create rules of engagement. Companies that aren't face regulation. Just ask Facebook.

To build strong trust, firms need to understand — and measure up on — four types of fairness that organizational scholars have identified:

Procedural fairness: Whether good processes, based on accurate data, are used to make decisions and are applied consistently, and whether groups are given a voice in decisions affecting them.
Distributive fairness: How resources (such as pay and promotions) or pain points (such as layoffs) are allocated.
Interpersonal fairness: How well stakeholders are treated.
Informational fairness: Whether communication is honest and clear. (In a 2011 study Jason Colquitt and Jessica Rodell found that this was the most important aspect for developing trust.)

The French tire maker Michelin learned how important it is to have fair processes in 1999, when it decided to cut 7,500 jobs after posting a 17% increase in profits. The outrage in response to that move was so great that eventually the French prime minister outlawed subsidies for any business making layoffs without proof of financial duress.

So in 2003, when Michelin realized it would have to continue restructuring to remain competitive, the company decided it needed to find a better way. It spent the next decade developing new approaches to managing change in its manufacturing facilities. The first strategy, called "ramp down and up," focused on shifting resources among plants — closing some while expanding others — as new products were brought on line and market needs evolved. Under this strategy, Michelin made every effort to keep affected employees in jobs at Michelin. The company would help them relocate to factories that were growing and provided support for the transition, such as assistance finding housing and information on the schools in their new towns. When relocation was not an option, Michelin would provide employees training in skills needed for jobs that were available locally and offer them professional counseling and support groups.

Success with the ramp-down-and-up approach led Michelin's leaders to later devise a bolder "turnaround" strategy, under which the management and employees of factories at risk of being shut down could propose detailed business plans to return them to profitability. If accepted, the plans would trigger investment from Michelin.

In carrying out these new approaches, the company demonstrated procedural, informational, interpersonal, and distributive fairness. In total it conducted 15 restructuring programs from 2003 to 2013, which included closing some plants while growing others and changing the mix of production capabilities among plants. But those reorganization efforts didn't get a lot of flack from the media, because the public didn't sound the alarm. In 2015, Michelin's first plant turnaround won the support of 95% of the factory's unionized workers. Michelin had demonstrated that it would use its power to treat employees fairly.

Does the company take responsibility for all its impact?

If stakeholders don't believe a company will produce positive effects, they'll limit its power. Part of the reason we have trouble forgiving Facebook is that its impact has been so enormous. The company might never have imagined that a hostile government would use its platform to influence an election or that a political consulting firm would harvest its users' data without their consent, but that's exactly what happened.

And ultimately, what happens on Facebook's platform is seen as the responsibility of Facebook.

Wanting to generate beneficial effects isn't enough. Companies should carefully define the kind of impact they desire and then devise ways to measure and foster it. They must also have a plan for handling any unintended impact when it happens.

Pinterest, the social media platform, offers a good counterpoint to Facebook. Pinterest has very clearly defined the impact it wants to have on the world. Its mission statement reads: "Our mission is to help you discover and do what you love. That means showing you ideas that are relevant, interesting, and personal to you, and making sure you don't see anything that's inappropriate or spammy."

In extensive community guidelines, Pinterest details what it *doesn't* allow. For example, the company explains that it will "remove hate speech and discrimination, or groups and people that advocate either." Pinterest then elaborates: "Hate speech includes serious attacks on people based on their race, ethnicity, national origin, religion, gender identity, sexual orientation, disability or medical condition. Also, please don't target people based on their age, weight, immigration or veteran status."

The company trains reviewers to screen the content on its site to enforce its guidelines. Every six months it updates the training and guidelines, even though the process is time-consuming and expensive.

In fall of 2018, when people in the anti-vaccine movement chose to use the platform to spread their message, Pinterest took a simple yet effective step: It banned vaccination searches. Now if you search for vaccinations on the platform, nothing shows up. A few months later, Pinterest blocked accounts promoting fake cancer treatments and other nonscientifically vetted medical goods.

The company continues to work with outside experts to improve its ability to stop disinformation on its site. Pinterest understands that, given its estimated 250 million users, its platform could be both used and abused, and has taken action to ensure that it doesn't become a vehicle for causing harm.

How to Build and Rebuild Trust

Trust is less fragile than we think. Companies can be trusted in some ways but not others and still succeed. And trust can also be rebuilt.

Take the Japanese conglomerate Recruit Holdings. Its core businesses are advertising and online search and staffing, but its life-event platforms have transformed the way people find jobs, get married, and buy cars and houses, while its lifestyle platforms help customers book hair and nail appointments, make restaurant reservations, and take vacations.

From the beginning, Recruit designed its offerings around the principles of creating value and contributing to society. At the time it was launched, in 1960, large Japanese companies typically found new hires by hosting exams for job candidates at the top universities. Smaller companies that couldn't afford to host exams and students at other universities were shut out of the process. So Recruit's founder, Hiromasa Ezoe, started a magazine in which employers of all sizes could post job advertisements that could reach students at any university. Soon Recruit added such businesses as a magazine for selling secondhand cars and the first job-recruitment magazine aimed specifically at women.

However, in the 1980s, disaster struck the company. Ezoe was caught offering shares in a subsidiary to business, government, and media leaders before it went public. In all, 159 people were implicated in the scandal, and Japan's prime minister and his entire cabinet were forced to resign. A few years later one of Recruit's subsidiaries failed, saddling the company with annual interest payments that exceeded its annual income by ¥3 billion. Not long after that, Recruit suffered another major blow, when a main source of revenue, print advertising, was devastated by the rise of the internet.

This sequence of events would have easily felled another company, yet in 2018 Recruit had 40,000 employees and sales of $20 billion and operated in more than 60 countries. Today it's an internet giant, running 264 magazines (most online), some 200 websites, and 350 mobile apps. Despite its setbacks, Recruit continued to attract customers, nurture the best efforts of committed employees, and reward investors, and regained the respect of society.

To many executives, what Recruit pulled off sounds impossible. That may be because they subscribe to five popular myths that prevent people from understanding how to build and rebuild trust. Let's explore each of those myths and see how Recruit's experiences prove them wrong.

Myth: Trust has no boundaries.
Reality: Trust is limited.

Trust has three main components: the trusted party, the trusting party, and the action the trusted party is expected to perform. It's built by creating real but narrowly defined relationships.

Recruit was respected for its competence and, in particular, the way it trained its advertising salespeople to actively observe customers and come up with ways to make their businesses more successful. In the wake of the scandal, Recruit kept focusing on delivering the same high level of service. Because the stock violation didn't alter the company's ability to meet customers' expectations of competence, customers were willing to overlook it, and Recruit lost very few of them.

Myth: Trust is objective.
Reality: Trust is subjective.

Trust is based on the judgment of people and groups, not on some universal code of good conduct. If trust were a universal standard, Recruit's scandal would have led to its demise. However, even if society was outraged by the founder's actions (employees recalled that their children were embarrassed by their parents' jobs), customers still believed that Recruit's employees had their interests at heart. In time customers' trust led to increased profits, which made Recruit attractive to investors and society.

Myth: Trust is managed from the outside in — by controlling a firm's external image.
Reality: Trust is managed from the inside out — by running a good business.

All too often managers believe that improving a company's reputation is the work of advertising and PR firms or ever-vigilant online image-protection platforms. In actuality, reputation is an *output* that results when a company uses fair processes to deal with stakeholders. Be trustworthy and you will be trusted. Recruit had not only a track record for delivering good products and good service but a salesforce that was willing to work to save the company. Why? Because it had created a culture and systems that engaged and motivated employees. Employees wanted to save Recruit because they could not imagine a better place to work.

Recruit was built on the belief that employees do their best work when they discover a passion and learn to rely on themselves to pursue it. The company's motto is "Create your own opportunities and let the opportunities change you." Managers ask employees "Why are you here?" to help them invent projects that link their passions to a contribution to society. Here's how one employee in Recruit's Lifestyle Company recently described his project: "I'm involved with the development of a smartphone app…which helps men monitor their fertility and lower the obstacles they face in trying to conceive.…It is a real challenge to envision products that do not yet exist and make them real, but I am confident that in some small way my creative abilities can provide a service that will help people."

To ensure that all employees feel inspired by their work, Recruit makes them a unique offer: Once they reach the age of 35, they have the option of taking a $75,000 retirement bonus, providing they've been at Recruit at least six and a half years. The amount of the bonus increases as employees grow older. This offer is accompanied by career coaching that helps people make the right choice. People who have other dreams use the bonus to transition to different careers, making way for new employees with fresh perspectives on the needs of customers and society.

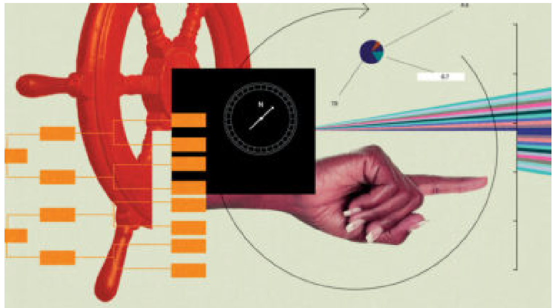
Myth: Companies are judged for their purpose.
Reality: Companies are judged for their purpose *and* their impact.

Next In
Broken Trust

Leading with Trust

Five CEOs who illustrate how

fairness, good intentions, and power are linked.



Recruit's purpose had always been to add value to society. However, that did not protect the company from fallout from the scandal. Recruit was forced to take responsibility for the impact it had on the country before it could regain people's trust. Because its senior managers understood this, they disregarded PR's dictate not to discuss the scandal and told employees they could too. Kazuhiro Fujihara, who was the head of sales at the time, explains: "I gathered my employees and told them we could criticize the company for what it had done. PR said we couldn't criticize the company, but I ignored that." Today, Recruit has a section on its website describing the scandal, what it learned, and the actions it took to ensure that it would not let something similar happen again. Recruit was well aware that even though the scandal was caused by its founder, Ezoe's actions were still its responsibility.

Myth: Trust is fragile. Once lost, it can never be regained.
Reality: Trust waxes and wanes.

More than three decades later, Recruit's stock scandal is still infamous, but the company is thriving. The fall from grace was, Recruit says on its website, "an opportunity to transform ourselves into a new Recruit by encouraging each employee to confront the situation, think, make suggestions, and take action with a sense of ownership rather than

waiting passively based on the assumption that the management team would rectify the situation. All proposals were welcomed, including those concerning new business undertakings and business improvements, provided they were forward looking." That approach helped Recruit evolve and grow. It has expanded so much internationally, in fact, that 46% of revenues now come from outside Japan (up from 3.6% in 2011).

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Now that we've broken down what trust is made of, let's put it all together.

Building trust depends not on good PR but rather on clear purpose, smart strategy, and definitive action. It takes courage and common sense. It requires recognizing all the people and groups your company affects and focusing on serving their interests, not just your firm's. It means being competent, playing fair, and most of all, acknowledging and, if necessary, remediating, all the impact your company has, whether intended or not.

It's not always possible to make decisions that completely delight each of your stakeholder groups, but it is possible to make decisions that keep faith with and retain the trust they have in your company. | **THE BIG IDEA**

Read more on **Business and society** or related topics **Business ethics**, **Public relations** and **Trustworthiness**

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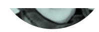

author of *The Power of Trust: How Companies Build It, Lose It, and Regain It* (PublicAffairs 2021).

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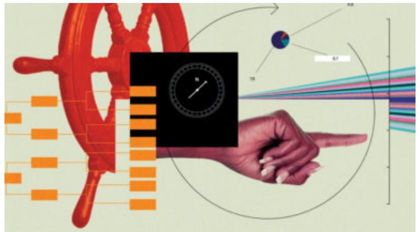
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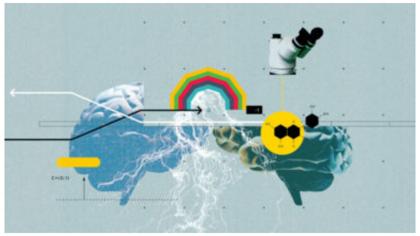
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The Elements of a Good Company Apology

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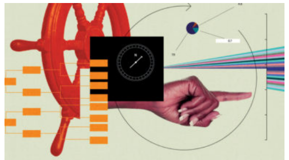

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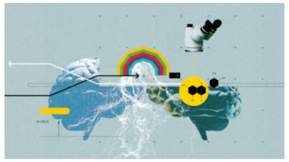

How Our Brains Decide When to Trust

The Elements of a Good Company Apology

AUDIO
Fighting Bias and Inequality at the Team Level

Partner Center