

THE PROOF THAT TRUST CREATES COMPETITIVE ADVANTAGE

COMPILATION OF EMPIRICAL RESEARCH

Forum on Building a
Trustworthy Organization
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CONSORTIUM FOR
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ORGANIZATIONS

THE ORGANIZATIONAL TRUST EFFECT

There is a great deal of empirical research that proves that becoming trustworthy and earning stakeholders' trust creates competitive advantage long term.

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THE NATIONAL TRUST EFFECT

- Nations with higher trust have better economies
*Paul Zak and Stephen Knack, "Trust and Growth."
(Economic Journal, 2001)*
 - Nationally, for every 15% increase in level of trust, average economic growth rate increases 1%
 - Investment as a share of GDP increases 1% for every 7% increase in trust

THE SUPPLIER TRUST EFFECT

- Suppliers in high-trust trading relationships benefit (*Sako, Organizational Trust - 1998*)
 - High-trust suppliers defend their profit margins better. High-trust suppliers' profit margins decreased 0.7% while low trust suppliers' profit margins decreased 2.0% (*Pg. 276*)
 - U.S. suppliers with high trust spent 38% of their total contact time in joint problem solving compared to 30% from low-trust suppliers (*Pg.277*)

THE LEADER TRUST EFFECT

- High Trust leaders generate positive follower effects

- Lower intention to quit
(-.38 correlation, 3,041 total sample) (Dirks & Ferrin, 2002)
- Higher organizational commitment
(.44 correlation, 5,592 total sample) (Dirks & Ferrin, 2002)
- Higher job satisfaction
(.55 correlation, 6,863 total sample) (Dirks & Ferrin, 2002)
- Higher job performance
(.17 correlation, 5,244 total sample) (Dirks & Ferrin, 2002)
- Higher Citizenship Behavior
(.22 correlation, 3,166 total sample) (Dirks & Ferrin, 2002)
- Trust in Senior Leadership correlates .44 with Team Performance *(IBM study: 2013, Sample of 1,051 - Worktrends study in Australia and New Zealand)*
- Trust in Senior Leaders correlates .54 with Organizational Performance *(IBM study: 2013, Sample of 1,051 - Worktrends study in Australia and New Zealand)*

THE LEADER TRUST EFFECT

- High Trust leaders increase organizational performance
(IBM Study: 2013, Sample of 1,051 - Worktrends study in Australia and New Zealand)
 - Trust in Senior Leaders is significantly related to Cooperation (*Beta .53*)
 - Trust in Senior Leaders is significantly related to innovation (*Beta .63*)
 - 37% of Organizational Performance is driven by trust in Senior Leaders (*Beta .33*) and Innovation (*Beta .33*)

THE LEADER TRUST EFFECT

- Simons, 2000
(sample 7000 employees 76 Hotels)
 - Employee perceptions of the integrity of their manager was significantly related to profitability (Beta .32)
 - A 1/8th increase in integrity translated to a US\$ 261K increase in profit per hotel

THE TOP TEAM TRUST EFFECT

- High trust Senior Teams generate positive employee behavior
(Dirks & Ferrin, 2002)
 - Lower intention to quit
(-.31 correlation, 954 total sample)
 - Higher job satisfaction
(.48 correlation, 3,708 total sample)
 - Higher organizational commitment
(.57 correlation, 3,831 total sample)

THE ORGANIZATIONAL TRUST EFFECT

- Trust leads to higher employee engagement:
96% of engaged employees trust management compared to only 46% of disengaged employees
(Gallup)
<http://businessjournal.gallup.com/content/826/warning-corporate-scandals-may-demoralize-employees.aspx>
- Trust reduces customer defections:
53% of customers say they would leave if they distrust (Golin/Harris poll 2003, *Trust in American Business*)
http://www.golinharris.com/pdf/03_04_trust_pulse.pdf
- The Harris Poll Reputation Quotient for 2011 and 2013 showed that “Trust the Company” was a **top 3 driver of “Great” company status** (sample 14,000 Americans)

THE ORGANIZATIONAL TRUST EFFECT

- More than 82% of major companies are making a **substantial effort to manage reputation** risk according to a survey of 148 risk management executives at U.S. and European corporations. *(Conference Board, 2009)*
- A survey of 26,000 individuals in 26 countries found that more consumers form their **impression of a company on the basis of its corporate citizenship practices** than do so on brand reputation or financials. *(Arthur D. Little, Inc.)*

THE ORGANIZATIONAL TRUST EFFECT

- Outsourcing contracts that are based on trust are more likely to lead to trust dividends for both parties – as much as **40% of the total value of contract**
(*Warwick Business School*)

<http://www.wbs.ac.uk/news/features/2006/04/25/Good/relationships/save>

- The typical organization **lost 5% annual revenue to fraudulent activity**
(*Association of Certified Fraud Examiners*)

<http://www.acfe.com/rtn-highlights.aspx>

THE ORGANIZATIONAL TRUST EFFECT

- At least 64% of opinion leaders in every country surveyed said they had **refused to buy the products or services of a company they did not trust.**

(Annual Edelman Trust Barometer, 2006)

<http://www.edelman.com/insights/intellectual-property/edelman-trust-barometer-archive/>

- Traders bid more due to a trust effect: A controlled experiment found that **eBay buyers bid 7.6% more for otherwise identical goods** that are listed by repeat sellers with high reputations.

(Resnic, Paul, Richard Zeckhauser, John Swanson and Kate Lockwood, "The Value of Reputation on eBay: A Controlled Experiment")

THE ORGANIZATIONAL TRUST EFFECT

- Trust leads to higher quality financial reporting:
fewer restatements, lower audit fees
(Garrett, Hoitash and Prawitt, 2012)
- SAS enjoys a **4% turnover rate, as compared to a 20% turnover rate in its industry**, attributed to trust.
(Burchell and Robin, 2011)
- Higher trust leads to higher employee wellness:
1/7th the reports of mental or physical illness
(IBM Study)

THE ORGANIZATIONAL TRUST EFFECT

- High-trust organizations outperform the market
 - Total return to shareholders in high-trust organization is almost **3 times higher** than low-trust organizations.
(*Watson Wyatt Work USA, 2002*)
<http://www.prnewswire.com/news-releases/growing-worker-confusion-about-corporate-goals-complicates-recovery-watson-wyatt-workusar-study-finds-75677517.html>
 - High trust companies generated **2.3 to 3.8%** higher stock market returns from 1984 to 2011 valuation (*Edmans, 2012*)
 - High Trust companies had annualized stock market returns of nearly **2 times** that of the S&P 500 from 1997 to 2013 (*Russell Investment Group*)

THE ORGANIZATIONAL TRUST EFFECT

- High-trust organizations outperform the market
 - Better-regarded companies **attract more investors**, who bid up companies' market value and further improve their reputations.
(Harris Interactive and The Reputational Institute, 2001)
 - A one-point change on the Fortune “Most Admired” list translates into \$500 million in **market value**
(Ervin Black, 1999)

THE HARD COSTS OF LOW TRUST

- Gallup's research places **71% percent** of U.S. workers as either not engaged or actively disengaged. The disengaged workforce is costing the US economy **\$450-550 billion** a year (*The State of the American Workplace Report 2013, Gallup*)
- The six biggest U.S. banks, led by JP Morgan Chase & Co. and Bank of America Corp. have piled up **\$103 billion** in legal costs since the financial crisis (*Bloomberg, August 2013*)
<http://www.bloomberg.com/news/2013-08-28/u-s-bank-legal-bills-exceed-100-billion.html>

THE HARD COSTS OF LOW TRUST

- The federal government imposed an estimated **\$216 billion** in regulatory costs on the economy (in 2012), nearly double its previous record (*The Washington Post*)
<http://www.washingtonpost.com/blogs/wonkblog/wp/2013/01/14/report-new-regulations-cost-216-billion-and-87-million-hours-of-paperwork/>
- 84% of senior leaders say disengaged employees are considered one of the biggest threats. However, only 12% of them reported doing anything about this problem (*The Economist Intelligence Unit, 2010*)
http://www.economistinsights.com/sites/default/files/LON%20-%20PL%20-%20Hay%20report_WEB.pdf
- 50% of consumers trust businesses, but just 18% trust business leadership (*Edelman Globally*)
<http://mba.americaeconomia.com/sites/mba.americaeconomia.com/files/121501475-executive-summary-2013-edelman-trust-barometer.pdf>

THE LOW COST OF HARD TRUST

- High Sustainability companies significantly outperform their counterparts over the long-term, both in terms of stock market as well as accounting performance
(*Eccles et al, The Impact of Corporate Sustainability on Organizational Processes and Performance*)
- Global Alliance for Banking on Values compared values-based and sustainable banks to their big-bank rivals and found:
 - **7% higher Return on Equity** for values-based banks (7.1% ROE compared to 6.6% for *big banks*).
 - **51% higher Return On Assets** for *sustainable* banks (.50% average ROA for *sustainable* banks compared to *big bank* earning 0.33%)

www.gabv.org/wp-content/uploads/Full-Report-GABV-v9d.pdf

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