The proof that trust creates competitive advantage

Compilation of Empirical Research

Forum on Building a Trustworthy Organization
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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


- 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)
  

• 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)*

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)

• 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 Zeckjhauser, 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
  \textit{(Garrett, Hoitash and Prawitt, 2012)}

• SAS enjoys a \textit{4\% turnover rate, as compared to a 20\% turnover rate in its industry}, attributed to trust.
  \textit{(Burchell and Robin, 2011)}

• Higher trust leads to higher employee wellness: \textit{1/7th the reports of mental or physical illness}
  \textit{(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)


➢ 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)

• 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)

• 50% of consumers trust businesses, but just 18% trust business leadership (Edelman Globally)
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%)

REFERENCES


REFERENCES (CONT.)


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Cornell University, n/a, n/a.


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