

Leadership and Organizational Trust

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Michael Hackman

Synopsis by Rod Cox

“Recent examples ranging from Enron to Bear Stearns, Lehman Brothers, and AIG support the notion that without trust, organizations cannot thrive. High-trust organizations have increased value, accelerated growth, enhanced innovation, improved collaboration, stronger partnering, better execution, and heightened loyalty.”

In this Management Forum Series presentation, Dr. Michael Hackman focuses on the business reasons for enhancing leadership and organizational trust. He is convinced that trust has a significant impact on overall organizational effectiveness and profitability, and his research bears this out. In fact, he shows that trust is not just critically important, *“it is the main thing, the essential element of organizational success.”* Dr. Hackman’s presentation focused on five key drivers of organizational trust:

- competence
- openness and honesty
- concern for employees and stakeholders
- reliability
- and identification.

Hackman’s interactive and personable presentation took the attendees through detailed strategies for building each driver of trust, showing them how they can develop comprehensive plans to enhance trust within their own organizations.

Michael Hackman is a Professor of Communication and Leadership Studies and Director of the Honors Program at the University of Colorado-Colorado Springs. He is also an adjunct at the Center for Creative Leadership, and is an affiliate with the consulting firms CommuniCon, Inc., Footprints Consulting, and the TRACOM Group. Hackman’s work focuses on a wide range of issues including the impact of gender and culture on communication and leadership behavior; leadership succession; and creativity. His work has appeared in *Communication Education*, *The Journal of Leadership Studies*, *Communication Quarterly*, and others. He is co-author (with Craig Johnson) of *Leadership: A Communication Perspective* and *Creative Communication: Principles and Applications*. His latest book, *Building the High Trust Organization* (with Pam Shockley-Zalabak and Sherwyn Morreale), will be published in April, 2010. Dr Hackman has also served as visiting/adjunct Professor in New Zealand, Italy, and Austria. His consulting practice includes work in the U.S., Australia, Austria, Canada, China, Italy, Luxembourg, The Netherlands, and New Zealand. His clients include Agilent Technologies, Bristol-Meyers Squibb, Ernst & Young, Fiat, Georgia-Pacific, Hewlett-Packard, NASA, Philips, the United States Air Force, and Wells Fargo.

This synopsis includes concepts and quotes from his Portland, Oregon Management Forum Series presentation as well as attendee comments and observations.

The High Cost of Distrust

“The value of trust-building leadership can be measured by profits.”

Distrust contributes to “we versus them” behavior.

“We versus them” behaviors can be very expensive. Note the new Airbus A380, delivered several years behind its scheduled rollout. Many of the delay issues centered around generations of distrust harbored by the contributing countries. “We versus them” thinking has repeatedly blocked cooperative execution. For example, the 300 miles of wiring for each A380, engineered and assembled in Hamburg, Germany, did not fit when it arrived in Toulouse, France for installation. Open dialogue – trust – would have shown in advance that the German and French cadcam systems did not match. This vital component had to be remanufactured costing Airbus hundreds of millions of dollars. It also cost two Airbus CEOs their jobs.

Distrust lowers employee desire to contribute to productivity goals.

Because it is so often mismanaged, downsizing contributes to distrust, and distrust contributes to reduced production. American Management Association downsizing studies show as much as 40% reduction in productivity, 18% in Quality Assurance ratings, and an astounding 58% in employee morale. Collateral damage includes the loss of key non-downsized employees who seek other employment. The organization loses people it doesn’t want to lose.

Note our current financial crisis. Clearly, a trust factor (a trust crash) is involved. As a wary public began pulling dollars from the market, financial organizations became more opaque instead of more transparent, causing an even higher level of distrust. (Interestingly, 70% of CEOs surveyed now say they have no idea how the current financial crisis will affect their company.)

Distrust breeds fear and destructive behaviors.

While other large-box stores stand by their “if it looks worn, it can’t be returned” policy, Nordstrom has long given its sales staff considerable latitude in meeting customer needs. “Use your good judgment in all situations.” The result? Customer loyalty and repeat sales. Because of this trust, Nordstrom reaps \$400 in sales volume per square foot per year, twice the sales volume for other stores.

When asked, “How do you train your employees to use good judgment?”, a Nordstrom executive famously answered, “We don’t; their parents do.”

Customers know and trust this approach. A Nordstrom customer returned a sweater that she had had for years. Zip front, leather patches on the shoulders. Her dry cleaner had messed it up. Unfortunately, Nordstrom no longer carried the exact match, but it did carry a similar sweater that cost \$300 retail, far more than the original sweater. Even though the net loss to Nordstrom was \$100, the store gained a customer and ongoing sales for life.

Distrust makes crises worse.

Silence is not a strategy in a crisis. Silence creates fear, speculation, rumor and panic. In such situations, leadership is a hard job with a different responsibility than that of non-leaders. Not that a leader has to have the answers; often, she doesn’t. But she does need to acknowledge the situation, let her staff know what they need to

know, and be honest about what she doesn't know. *“The more we're in a crisis situation, the more we need to communicate.”*

The most common malpractice reason in medicine is lack of people skills. A full 70% of malpractice suits results from physicians who are rude, unapologetic, or unwilling to be a human being with their patients. Doctor-patient interaction is critical. In a recent study, even though the subject physicians knew that they were being video-taped and rated on how long they listened to a patient before interrupting, the average was just 13 seconds. 13 seconds! The study also found that diagnoses were often assumed before the doctor walked through the door to the examining room.

Distrust is Expensive

When something goes awry, we are much more inclined to sue if the relationship lacks trust. Consider the negative affect of background checks and unnecessary screening, even in environments where it does not seem to matter. (Executive Forum: The Oregon State legislature is poised to pass a bill that would prohibit routine credit checks as a pre-employment screening process.)

People tend to live up to expectations. When the expectations are high, the response is high. When the expectation is low, the response is low. Studies show, for example, that when people are treated as thieves – think surveillance cameras and security guards -- they are more inclined to become thieves.

The Nature of Trust

Organizational trust is multi-leveled, multi-dimensional, and complex

Employees measure organizational trust in terms of intuition (gut instinct), behaviors and policies. Hackman tells of a manager who did not follow the rules that the rest of the employees were required to follow. For example, he parked his Corvette in the fire lane directly in front of the entrance. “I am often called away quickly” was his excuse. But the employees knew better. Throughout the organization, trust was low because trust in the leader was low.

Organizational trust is culturally-rooted

What constitutes trust in one culture may be quite different in another. Hackman tells of a time in Vienna where he had an early next-morning flight. He requested a taxi from the hotel clerk. Concerned about the possibility of the taxi being late, he asked the clerk, “Will you be here in case there is a problem?” The very dependable Austrian clerk looked at him in astonishment. “There will be no problem!” Hackman then explained that he had been in Italy for the previous two weeks. “Ah, Italy,” said the clerk. “Now I understand.” It's not that Italy lacks trust, but their culture is not built around the Austro-German maxims of dependability and timeliness.

Organizations, too, have different cultures and different trusts. They may handle issues in very different ways. A key role for leadership is to understand the culture of the organization and to infuse it into everything they do.

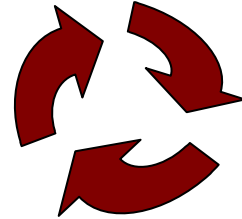
Organizational trust is communication-based

Hackman: *“The leader is the person who makes others around them better. A great leader turns team members into great players.”* It's hard to find an organization with high trust and poor communication. They just don't go together.

Organizational trust is dynamic

How long does it take to lose trust? It can happen in a second. Yet building it back can take months, years, or even a lifetime. What has loss of trust cost Tiger Woods? How long will it take him to regain trust?

Sometimes leaders start out by saying, “you’ll have to earn my trust.” By definition, this shows their own distrust and it is bound to have a negative impact. If you don’t trust your staff — if they have to “prove” themselves to you before you grant them trust — why would you hire them? And why would they trust you? To be sure, leaders may occasionally be let down when someone betrays the trust; however, outcomes are inevitably worse when the foundation of the relationship is distrust.



Trust Matters

High trust is less expensive than low trust.

A call center supervisor made a habit of pinging individual center employees to let them know “I’m watching you.” His span of control was limited to only those employees with whom he was in direct contact at a given time (1:1), and to whom he had tacitly said, “I don’t trust you.” In contrast, at high trust adaptive organizations, the average span of control is 1:30.

High trust organizations often have high-level relationships or strategic alliances, even with their competitors.

In the world of HD televisions, the components inside the sets are almost all the same, made by the same contractors and sub-contractors. The “face” companies — Sanyo, Toshiba, Samsung, Mitsubishi, Panasonic, etc. — are aware that a consortium of companies and a sharing of ideas has greater benefits than could be had were they to invent and produce all of the components on their own.

Responsive virtual teams – project teams – can be located anywhere, may never actually see each other, and may never work together again.

Their status is very different from teams that are formed for other projects. Since virtual team roles are flexible rather than rigid, trust becomes a central issue. Will each team member do his part? Will he do it on time? Does he have the same outcome interest as the rest of the team?

Trust is at the core of effective crisis management.

Bear Stearns had been a fixture on Wall Street since 1923, yet it collapsed in less than a week in 2008 when people lost trust. Bear Stearns leaders were not prepared to deal with a crisis. Their first response, issued by the golf shirt wearing CEO from his Palm Beach getaway, was “It’s not true,” and he continued his vacation. None of the other Bear Stearns leaders stepped into the brink. In the absence of strong, trustworthy leadership, rumors flew and the company folded.

Trust reduces litigation costs.

An environmental lawsuit against Chevron (formerly Texaco) by the government of Ecuador stretched a full 20 years, and resulted in a \$27 billion judgment against the oil company. What would it have cost Chevron to have just settled early on? How much litigation expense could have been avoided? With this massive loss of trust, what is the potential long-term loss-of-opportunity cost for Chevron when Ecuador

“Trust men [and women] and they will be true to you; treat them greatly and they will show themselves great.”

Ralph Waldo Emerson

and other countries refuse to allow it to do business on their lands and in their waters?

Trust Is The “Main Thing”

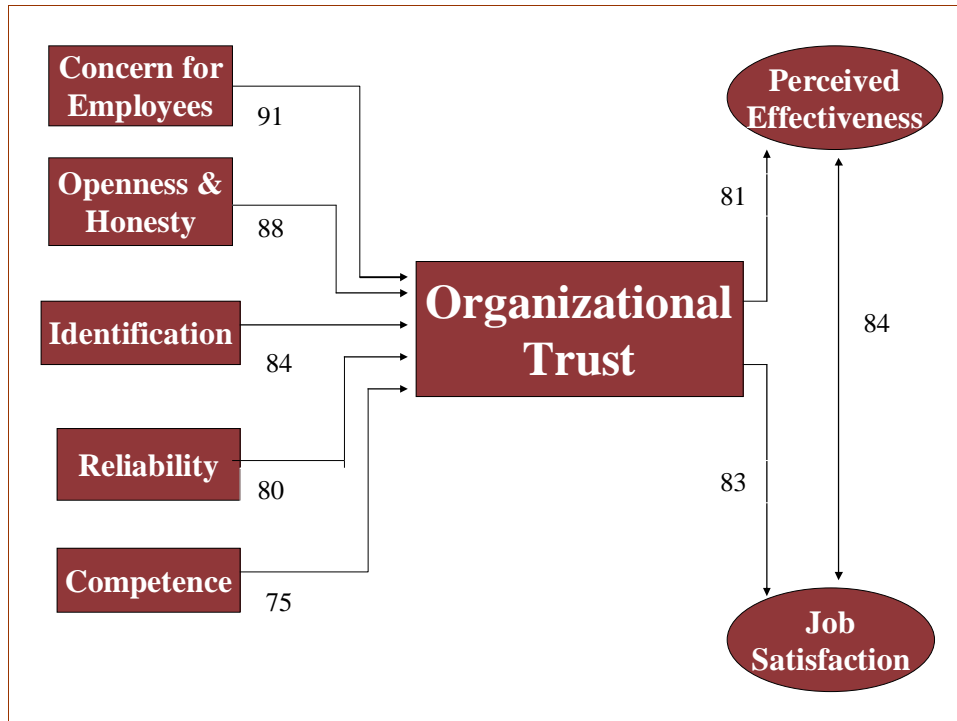
**Defining Trust in Organizations:
The willingness, based upon an organization’s culture and communication behaviors in relationships and transactions, to be appropriately vulnerable based on the belief that taking risks will result in positive outcomes.**

As mankind has moved through the Age of Agriculture to the Age of Manufacturing to the Age of Information to the Age of Creative Intensification, trust has become increasingly core to business success. Many products and services are essentially the same. Trust is often the differentiator. For example, Apple products are not all that different from those of other manufacturers (okay, you Mac users; smooth your feathers, settle down and continue reading), but is seen as being unique. Apple users are typically much more loyal to the brand than are users of any other brand. Apple has the highest trust rating in its industry.

In any organization, trust is the glue that holds the organization together. This was clearly illustrated in a broad study of 53 global organizations with work forces of 100-146,000 drawn from manufacturing and service sectors. Over 4,000 employees, randomly selected from the participating organizations, completed the survey. From their responses, a 29-item Organizational Trust Index was created. It serves as a global benchmark.

The core of the Organizational Trust Index is simple: trust is a measure of how vulnerable you can be in the relationship. In that way, it mirrors trust in other meaningful relationships such as marriages.

The following graphic shows how various components of organizational trust are deemed critical in an organization, and how this trust translates to job satisfaction and perceived effectiveness.



Actions for Building Trust

Leaders who show concern for employees, who handle layoffs equitably, who are open and honest, who clearly identify with the organization’s mission/vision and people, who are reliable and competent, who pay attention to commensurate salaries, who promote work-life balance, and who are concerned with health and safety are likely to nurture trust.

- Does this sound like your organization? If not, you and other leaders can markedly improve organizational trust by initiating an action plan that includes the action, the responsible parties, a time line, and follow-up. “

1. “Concern for employees is a generalized perception of sincere, caring, and empathetic efforts by leaders to understand feelings and to promote tolerance and psychological safety.”

How is this communicated in your organization? What policies and practices are most important? Management Forum attendees pointed out several tangible expressions of genuine trust:

- conducting surveys, then taking action based on results
- supporting flexible scheduling
- going to bat for the team
- visibly acknowledging trust, and showing it
- weaving into the fabric of the organization trust-promoting activities such as consciously looking for people doing “right” or “extraordinary” things, and then making a big deal about it.
- actively piloting, not auto-piloting

Costco, the fourth largest US company (\$50B/yr) has the lowest turnover of any large retail organization. It is a classic example of success built on a foundation of high trust. Jim Sinegal, CEO, earns \$350K per year, a tiny amount as compared to the CEOs of Walmart, Home Depot, and Sears/Kmart. His contract states that he can be terminated for cause. He answers his own phone and attends all new store openings. His badge says “Jim.” Wall Street doesn’t like Jim Sinegal because their focus is on wresting maximum dollars from the operation each month. Sinegal’s focus is on sustainability. He is known for the trust he places in each employee and they reward him by staying with Costco, even though other retailers may pay higher salaries.

Concern for Employees	High Trust Outcomes <ul style="list-style-type: none">• higher employee satisfaction and retention• productivity quotas more frequently met• higher levels of stakeholder loyalty	Distrust Outcomes <ul style="list-style-type: none">• stakeholder needs frequently unmet• unfair treatment of stakeholders leading to dissatisfaction
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2. “Openness and honesty is a generalized perception of sincere exchanges for shared information between leaders and followers.”

Simply put, it’s telling the truth. “If you tell the truth you don’t have to remember anything.” (Mark Twain).

Proprietary information? Interestingly, the model is moving from “need to know” to “need to share.” What implications does this have in your organization? How do the messages (presentations, emails, publications, social media, etc.) in your organization communicate openness and honesty? Are team members getting the whole story? Are they passing it along? Are leaders/managers accountable, trained and supported in providing open and honest communication? Does the company guard against hiding the negatives?

At 3M, Art Fry chatted over lunch with Spencer Silver, a friend from another department. Silver mentioned that he had not succeeded in finding the effective packing tape glue he was seeking. His adhesive was too weak. But that was just what Frey was looking for: a permanent/temporary glue for note paper. From this conversation, at a company that does not believe in hiding mistakes, came Post-It Notes, a multi-billion dollar sales bonanza for 3M.

An effective leader is wise to learn how to craft messages and how to deal with entrenched trust issues. She will be aware of social media issues, too. Several years ago, a woman was offended by a Motrin backache ad that showed a mother groaning as she carried her child. The woman started a “do not buy Motrin” social network message that within one week had spread to over a million people.

Openness and Honesty	High Trust Outcomes <ul style="list-style-type: none">• more collaboration• less uncertainty• higher levels of stakeholder loyalty	Distrust Outcomes <ul style="list-style-type: none">• decreased sharing of information• less innovation
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3. “Identification is a generalized perception of affiliation and association as a result of holding common goals, norms, values, and vision.”

On a surface level, this might be shirts with the company name on them. On a deeper level, it might be a deeply entrenched, honored, and shared vision or value. Not-for-profit organizations often excel in this arena.

A desirable and sustainable vision is one of the most important elements of identification. Vision refers to a concise statement of the direction in which a group or organization and its people are headed. An effective vision is specific enough to provide real guidance to everyone in the organization, yet vague enough to encourage initiative and remain relevant under a variety of conditions.

- Apple Inc. “To make a contribution to the world by making tools for the mind that advance humankind.” Key concept: An effective vision should motivate and inspire.
- Amazon.com. “To be Earth’s most customer-centered company.” Key concept: An effective vision should guide action.
- Disney. “We create happiness.” Key Concept: An effective vision should be simple and to-the-point.
- One Management Forum attendee mentioned an airline for which he used to work. The in-the-ranks vision, uncontested by the leaders, was “Provide customer service to the level where there aren’t too many lawsuits.” The company is now defunct.

Vision can and should operate on multiple levels. Thus, an organization might have an overlying vision (“To extend and enhance human life by providing the highest-quality health and personal care products.”) plus a service center vision (“To be perceived by all of our customers as the preeminent provider of outstanding, quality service.”) plus a team vision (“To maintain a partnership committed to providing superior customer service – fulfilling all expectations with professionalism and respect.”) Of these, the most critical are the visions in the sub-categories where trust matters most.

Where is identification strong in your organization? Where does it need improvement? How can communication efforts contribute to clarifying your organizational vision? What behaviors are valued? Which of these are common to all members of your organization? What vision is shared and what is not?

Visions are, unfortunately, most often crafted by a few individuals at the top of the company, disconnected from the rank-and-file, and are too often a rehashing of bland ubiquitous phrases such as “global influence, exceed expectations, promote the good of mankind” and so on. Rarely does this type of vision have an impact on the day-to-day operation. This is tragic. It doesn’t have to be that way.

Harley-Davidson had, during the 1990s, an unofficial vision: “What we sell is the ability for a 43-year-old accountant to dress in black leather, ride through small towns, and have people be afraid of him.” In the 1980s, the corporate vision “Kill the Cat” was held by (you guessed it) John Deere Tractor Company. In both cases, Harley-Davidson and John Deere were selling image and brand and their visions made sense to everyone who heard them, workers and customers alike.

Supporting the organization’s vision is critical because once the public loses trust, the name value evaporates. Do you remember Anderson Consulting (financial meltdown)? It’s now Accenture. Blackwater (Iraq military contractor) is now Xe. Air Tran (Everglades crash) is now ValuJet.

Identification	High Trust Outcomes	Distrust Outcomes
	<ul style="list-style-type: none"> • shared values and purpose • more successful change efforts • increased quality 	<ul style="list-style-type: none"> • stakeholders pursue own interests • job insecurity • increased absenteeism and intention to leave

4. “Reliability is a generalized expectation for consistent and dependable behavior and congruence between words and actions across leaders and networks within the organizations.”

Short and sweet, reliability is being able to count on people. In your organizations, how reliable are people? Are they both personally and organizationally reliable? Are there differences across functions and locations? Are they congruent in words and actions? Walk the talk? Consistently appropriate? Proactive in soliciting feedback?

Reliability	High Trust Outcomes	Distrust Outcomes
	<ul style="list-style-type: none"> • more positive perceptions of effectiveness • higher overall performance 	<ul style="list-style-type: none"> • more frequent abuses of power • greater likelihood of broken commitments • decreased overall performance

5. “Competence is a generalized perception that assumes the effectiveness not only of leadership, but also of the organization’s ability to survive in the marketplace.”

Competence is a combination of knowledge and wisdom.

Hackman reviewed the relative positioning of General Motors and Ford in China, by far the strongest emerging automobile marketplace. To establish themselves, both companies sent representatives to talk to Chinese leaders. GM, aware of the importance of “face” in the Asian market, sent its top-ranking executive – the CEO. Ford sent an inexperienced marketing whiz-kid. Today, it is not unusual to see a Buick in the streets of Suzhou or Shanghai. It is rare to see a Ford.

How is competence communicated within your organizations? To your customers and clients? Does a Quality Score do it? Trust in competence is built by trumpeting achievements, keeping websites up-to-date, and by keeping all parts of the organization up and running.

The first prototype of a digital camera was invented in 1975 by a Kodak engineer. Because it used no film, it didn’t appeal to Kodak’s management. Since then, Kodak has earned over 1,000 digital camera patents, yet owns only ± 8% of market share. The company lacked visionary competency.

When you are incompetent, people won’t trust you because they know you won’t be around long.

“Trust men [and women] and they will be true to you; treat them greatly and they will show themselves great.”

Ralph Waldo Emerson

Competence	High Trust Outcomes <ul style="list-style-type: none">• higher achievement• higher quality employees are more easily attracted and retained• increased innovation• higher employee loyalty	Distrust Outcomes <ul style="list-style-type: none">• lowered stakeholder loyalty• lowered employee effort and commitment• fear of change
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Wrap Up

“Building trust isn’t just something. It’s the main thing. In virtually any organization, it includes:

- ***Policies and procedures review***
- ***A strong and committed leadership / management communication plan***
- ***Training / education for managers and supervisors***
- ***Regular employee feedback processes***
- ***A corporate communication strategy***
- ***An action plan that includes the action, the responsible parties, a time line, and follow-up.”***