

How to Build Trust in an Organization



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About the Author:

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Introduction

In a 2001 interview with *Fortune* magazine about his company's continued success, Herbert D. Kelleher, founder of Southwest Airlines, attributed much of it to the fact that he always treated his employees like customers. Kelleher knew that employees who are trusted and treated fairly will, in turn, treat their customers with trust and respect.

“Trust is the lubrication that makes it possible for organizations to work.”

– Warren Bennis

This is the same kind of philosophy that made Netflix a huge success as a young start-up organization. From the beginning, Netflix founder Reed Hastings knew the kind of company culture he wanted to develop to achieve its purpose. Netflix's “Freedom and Responsibility Culture” was based on the premise that all employees understand the purpose of the organization and that they know the value customers get from doing business with Netflix. The foundation of that culture is trust and responsibility; trust in its employees to achieve the company's goals and trust in its customers to act responsibly by eliminating late fees and asking customers to return their DVD rentals when they are ready.

That all was put in jeopardy when Netflix announced in July 2011 that it was eliminating its \$9.99 per month DVD + streaming plan in favor of two separate plans for \$7.99 each. Customers—many of whom faced a 60 percent increase for monthly Netflix services—were outraged, and the customer-led backlash eventually made Hastings reverse the decision. The damage was already done, however. By mid-September 2011, Netflix lost one million *more* subscribers than they had estimated after the July announcement, and the company's stock plummeted 14 percent. By the end of the year, Netflix had made \$40.7 million in the last three months of the year. By comparison, it had made \$47.1 million in the last three months of 2010.

The trust that customers, stakeholders and employees had in Netflix's top management to make sound choices was shaken by the decision, and the delayed reversal further eroded that trust. Netflix's leadership lost sight of the value they provided their customers—and by extension their employees-- when they failed to ensure that their decisions and actions supported its purpose. And by doing this, they let their employees down. Netflix employees no longer had a clear vision of the value customers got from doing business with Netflix – and this confusion has damaged its “Freedom and Responsibility Culture”.

Time will tell if Netflix can rebuild the trust they lost with their employees and their customers—its culture of trust, responsibility and freedom to take risks and to be innovative hangs in the balance.

Leadership and organizational studies pioneer Warren Bennis once said that “trust is the lubrication that makes it possible for organizations to work.” Organizations with high levels of trust have more productive workforces, better employee morale and lower employee turnover. They also perform better financially than their industry peers.

This white paper:

- Defines trust in organizations.
- Explores the characteristics of organizational trust and how it develops.
- Examines the benefits of trust in organizations.
- Examines the erosion of trust in the workplace.
- Offers steps HR professionals can take to build or rebuild trust in their organizations.

The Foundations of Trust: Credibility, Respect and Fairness

Dr. Duane C. Tway, Jr., offered an excellent definition of trust in his 1993 dissertation, *A Construct of Trust*, as “the state of readiness for unguarded interaction with someone or something” (Dubois, 2010). Warren Buffet put it another way. “Trust,” said Buffet “is like the air we breathe. When it’s present, nobody really notices. But when it’s absent, everybody notices.”

“To be persuasive we must be believable; to be believable we must be credible; to be credible we must be truthful.”

– Edward R. Murrow

We know when we feel that state of readiness, but what elements are needed to get to that state? Amy Lyman, co-founder of The Great Place to Work Institute, has studied trust in organizations for more than 20 years. She has found three characteristics, or elements, that come up time and time again in her interviews with clients: credibility, respect and fair treatment (Lyman, 2003, 2012).

According to Lyman, in organizations with high levels of trust, employees see others (particularly management) as **credible**—they mean what they say, and believe what they say is true—and have confidence that the actions of others will remain consistent with their words. In high-trust organizations, co-workers believe that others (particularly management) are ethical in their business practices.

High-trust organizations ensure that employees experience **respect**. This is exhibited through employers' support of their employees' professional growth and the consideration of employees' ideas in decision-making processes. Finally, employees in high-trust organizations believe they are **treated fairly** regardless of their position within the organization (Lyman, 2012).

High-trust organizations collaborate well across departments and hierarchies, and seek fair resolutions to difficult situations. Employees in high-trust organizations have confidence in their leader's vision for the future (Lyman, 2012).

Company Spotlight: Continental Airlines

Amy Lyman has cited Continental



Airlines as an excellent example of trust at work. In 2003, baggage reclamation employees at Continental heard there could be layoffs in their area to control costs. Rather than waiting for senior leaders to make the announcement, the employees met and developed a plan where full-time employees would move to part-time status so no one would lose their jobs. They presented the plan to senior managers, who approved the plan. "What's extraordinary," Lyman writes, "is that the employees took positive action to solve a problem and trusted that management would listen ... So what's going on at Continental that supports the development of positive relationships between employees and management? The simple answer is trust."

(Lyman, 2003, 2012)

The Development of Trust: Action and Interaction

Trust is earned through action. As Maister, Green and Galford wrote in their seminal book, *The Trusted Advisor* (2001), “You have to do something to give people the evidence they need to believe you should be trusted. You have to be willing to give in order to get.”

Trust is also earned through interaction. It can be as simple as a conversation between co-workers, a five-minute chat in the break room between a manager and her employee, or teamwork among co-workers to complete a project. It is the interaction that conveys to others the willingness on the part of one person to do something that is to the benefit of another person’s health and well-being (Lyman, 2012).

It is through a person’s action and interaction that others can assess whether that person is credible, reliable and fair.

The Effect of Trust: A Better Bottom Line

Numerous studies have been conducted through the years that confirm the benefit of trust in the workplace:

- A classic study by Cornell University Associate Professor Tony Simon of 6,300 Holiday Inn employees found that hotels where managers followed through on their promises and had behavioral integrity were more profitable (in Bader, 2003).
- A Watson Wyatt Worldwide study found that organizations in which front-line employees trusted their senior leaders had a 42 percent higher return on shareholder investment than organizations in which distrust was the norm (Reina and Reina, 2007).
- Amy Lyman’s tracking of publicly traded 100 Best Companies has shown that as a group and over time, those organizations have outperformed the Russell 3000 and S&P 500, posting annualized returns of 11 percent versus 4.26 percent and 3.83 percent, respectively. Lyman also notes that those best companies experience about half the turnover rate than other organizations in their industries. (Lyman, 2003, 2012).

A 2009 study by Interaction Associates found that high-trust organizations also had more effective leadership and better collaboration at all levels of the organization. The study found that high-trust organizations:

- Have a strong sense of shared purpose.
- Have employees who work together to support that purpose.
- Create cultures in which tolerance and cooperation are highly valued.
- Have leaders who coach rather than just manage.
- Have many people participate in making decisions.

The study revealed that in addition to superior earnings as compared to low-trust organizations, high-trust organizations excelled (as compared to their low-trust peers) at exhibiting organizational behavior consistent with their values and ethics (85 percent vs. 46 percent); at retaining employees (80 percent vs. 42 percent); and at attracting, deploying and developing talent (76 percent vs. 24 percent).



If trust increases profitability and helps in attracting and keeping talent, then the lack of trust lowers productivity, job satisfaction and commitment and increases employee turnover.

With all the documented benefits of having trust in an organization, one would think that creating and maintaining it would be a high priority for senior business leaders. Unfortunately, many senior leaders cannot seem to shake the top-down model of management that adheres to the notion that authority creates trust. In reality, trust creates authority.

The Erosion of Trust in Organizations

Trust may be a valued commodity in an organization, but it is a rare one. Research conducted by Reina and Reina (2009) found that nine out of every 10 employees have reported experiencing some sort of breach of trust in the workplace on a regular basis. A recent Deloitte survey on ethics in the workplace underlined the erosion of trust in the workplace and the negative financial effects on organizations struggling to regain their footing after the recent recession (PR Newswire, 2010).

The survey found that one-third of employees surveyed said they planned to look for new jobs when the economy recovered. Of those who said they would be job hunting, the main factors in the decision to look for a new job were a lack of trust in their employer (48 percent), and a lack of transparent communication from senior leaders (46 percent).

Senior leaders are not blind to the erosion of trust in the workplace. The Deloitte survey found that 65 percent of Fortune 1000 executives were concerned that employees would be job hunting in the coming months and that the lack of trust would be a major factor in the potential increase of voluntary employee departures.

To staunch the flow of talent planning to change jobs, it is more important than ever for businesses to assess the level of trust in their organizations and to focus on ways to improve it.

Company Spotlight: Whole Foods Market

John Mackey, CEO Whole Foods Market, Inc. (Austin, Tex.), wrote an essay in 2010 that provides insight into why Whole Foods is ranked consistently in the top 25 of the Best Companies to Work For list. To create a high trust organization, writes Mackey, organizations must:



- Develop and articulate a higher purpose. “The single most important requirement for the creation of higher levels of trust for any organization,” notes Mackey, “is to discover or rediscover the higher purpose of the organization.” This higher purpose must go beyond making money.
- Walk the talk. Organizations must have leaders who “walk the talk” — who serve the purpose and mission of the organization and lead by example.
- Have teams everywhere. Small teams maximize familiarity and trust, which helps maximize collaboration at all levels of an organization.
- Empower employees, because empowerment equals trust. “The effectiveness of teams,” Mackey writes, “is tremendously enhanced when they are fully empowered to do their work and to fulfill the organization’s mission and values.”
- Have transparent and authentic communication. One of the biggest mistakes organizations make is trying to “spin” their messages in the belief that if they tell stakeholders what they want to hear rather than the unvarnished truth, they will like them better. Spinning a message, in fact, creates distrust. *(Continued...)*

Company Spotlight: Whole Foods Market (...continued)

- Practice fairness. A virtue of transparency, notes Mackey, is that it helps ensure that unfairness is quickly seen and corrected.
- Create a culture of love and care. Mackey believes that leaders must embody genuine love and care of the organization and its people. In fact, he believes the virtues of love and care should be considered in all promotional decisions, writing that “we shouldn’t just promote the most competent, but also the most loving and caring.” A vital part of this loving-and-caring culture, notes Mackey, is the cultivation of forgiveness rather than judgment and condemnation.

(Mackey, 2010)

Steps to Build or Rebuild Trust

The impacts of distrust in an organization—lower employee morale and commitment, lower productivity and higher employee turnover—tend to fall squarely on the shoulders of HR. As such, HR should have a central role in establishing or re-establishing trust throughout an organization.

Corsum Consulting (O’Neil, 2009) has developed a mnemonic HR and senior leaders may want to keep in mind when trying to improve trust in an organization:

T = Teach. Teach everyone in the organization how things work; make it as transparent as possible.

R = Reward. Make sure reward systems align with corporate value and goals.

U = Unconditional support. Encourage innovation. Create an environment where mistakes are opportunities to learn, not to punish. Give employees permission to “think outside the box.”

S = Share information. Communicate clearly and frequently.

T = Trustworthy. Make commitments and keep them.

This mnemonic can also help shape the practical steps HR professionals can take to improve trust throughout their organization.

Step 1: Assess the Level of Trust in the Organization.

Although Warren Buffet may be right that it is the absence of trust which is noticed, this observation is not sufficient to build the business case needed to take action and attempt to improve an organization's level of trust. HR professionals should assess the level of trust in their organizations, and this can be done through employee surveys and confidential one-on-one interviews.

Some questions that can help assess the level of trust include:

- Do you trust your peers?
- Do you trust your senior leaders?
- Do you view your peers and senior leaders as credible?
- Do you believe your senior leaders' actions are consistent with their words?
- Do you understand the organization's mission and vision and the role you play to achieve them?
- Do you feel that risk-taking is encouraged?
- Do you feel safe communicating your ideas and opinions with colleagues?
- Do you believe you are treated fairly and with respect?
- Do you feel senior leaders communicate openly?
- Do you feel your supervisor and other senior leaders care about and encourage your professional development?
- Do you believe your ideas are taken into account during the decision making process?

The responses to these questions will help establish the level of trust felt by employees in the organization. An analysis of the results should help identify which elements of trust—

credibility, respect and fair treatment—the organization as a whole is accomplishing and which areas need improvement.

Step 2: Report the Results of the Assessment.

A recurring theme, which emerges in the study of trust in organizations, is to improve it, organizations must communicate as openly and transparently as possible with employees at all levels. Once assessed, the results of an organizational survey of trust should be openly communicated to all employees. HR professionals should consider multiple delivery methods, including town hall meetings and posting the results on a company intranet. The communication should report on the strengths and weaknesses found through the study. Areas of improvement should be identified, and employees should participate in the process of what steps will be taken to make those improvements.

Reina and Reina (2007) offer the following suggestions to HR professionals when trying to establish or rebuild trust in the workplace:

- Allow feelings to surface. When reporting on the results of the survey, allow employees to constructively voice their concerns, issues and feelings. Holding small group meetings after the report has been presented may make employees feel safer and encourage them to more openly discuss their experiences.
- Get support. Reina and Reina observed that a common mistake made by senior leaders and HR professionals is to think they can manage the process of building or rebuilding trust alone. Trust is highly emotional for everyone involved; obtaining the support of an outside consultant to guide the organization through the process can help.
- Take responsibility. HR professionals and senior leaders must take responsibility for any actions they made in the past that lowered trust. Do not spin the truth or cover up mistakes—this will only lower trust more.
- Encourage forgiveness. Forgive yourself and others. Forgiveness helps release feelings of anger, bitterness and resentment that come with broken trust.

Step 3a: Assess Your Own Trustworthiness and Whether HR Programs and Policies Promote Trust in the Organization.

Step 3b: Ask Other Senior Leaders to Do the Same.

Trust in senior leaders is vital to an organization's success, and while an employee survey may help recognize organizational trust issues, HR professionals must assess whether their actions are construed as trustworthy by others. Feedback (from all levels in the organization) and self-assessment are ways this information may be gathered.

Some questions that could be asked when seeking feedback or taking a self-assessment may include:

- Do I communicate openly, honestly and consistently?
- Are my actions consistent with my words?
- Do I share information with my employees consistently?
- Do I help develop my employees?
- Do I respect my employees' opinions? Do I include their opinions during the decision making process?
- Do I treat all of my employees fairly?

With the expertise of an outside consultant, use the information obtained from the organization-wide survey and the personal assessment to develop a "trustworthiness improvement plan." This may also be a good time to identify a coach or mentor who can help guide you through the process in the long term.

Next, ask senior leaders to undergo the same process. Everyone at the senior leadership level must lead by example to establish or re-establish trust and credibility.

In addition, HR professionals should take the opportunity to assess whether HR policies and practices foster the development of trust in the organization. To encourage the growth of trust, HR policies and practices must be aligned with the organization's mission and vision, and the organization's total compensation plan should reward trustworthy behavior. HR professionals should develop and offer interpersonal communications and skills training to all employees to encourage constructive communication and information sharing. HR policies and practices should be designed to foster a culture where employees feel safe to be innovative and engaged.

Step 4: Follow Up and Remain Vigilant.

The loss of trust can occur after a single event (such as a layoff, merger or acquisition), but trust is built over time. HR professionals should assess the levels of trust in their organizations on a regular basis and ensure that any incidences causing distrust are addressed in a timely manner.

Conclusion

As the economy improves, valued employees who have lost trust in their senior leaders will seek employment elsewhere, leading to increased turnover, lost productivity plus higher recruiting and onboarding costs. HR professionals can staunch the flow of talent leaving the organization by taking proactive steps to improve trust in the workplace.

About UNC Executive Development

Our approach to program design and delivery draws upon the power of real-world, applicable experiences from our faculty and staff, integrated with the knowledge our client partners share about the challenges they face.

We combine traditional with experiential and unique learning to ensure that all individuals gain relevant new skills that they can easily implement within their own organizations. Through action learning and business simulation activities, we challenge participants to think, reflect and make decisions differently.

Our Approach: The Partnership

Our team customizes each leadership program through a highly collaborative process that involves our clients, program directors, faculty and program managers. We are dedicated to following-up with our clients and individual participants to ensure that their learning experiences have been meaningful and impactful. This integrated approach consistently drives strong outcomes.

Our Approach: The Results

Our executive education programs are designed with results in mind, and we are focused on successfully meeting our clients' business and academic expectations. Below are a few examples of the results our client partners have achieved:

- Big data analytics
- Leadership refocused with new strategy and cohesive vision
- Strategic plans created for the global marketplace
- Supply chains streamlined
- Products redefined
- New markets targeted
- Cost-saving measures developed
- Silos leveled
- Teams aligned

Participants leave empowered to bring in new ideas, present different ways to grow business and tackle challenges. The result is stronger individuals leading stronger teams and organizations.

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