

A hand holding a glowing orb with a grid overlay and various text boxes. The text boxes include: 'Operational efficiencies', 'Trust?', 'Broken', 'Vindicated', 'Cooperation & problem solving', 'Information sharing & knowledge exchange', and 'A positive work environment'.

Building and Restoring Organisational Trust

By Graham Dietz and Nicole Gillespie

 Institute of Business Ethics

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IBE Preface

Preface

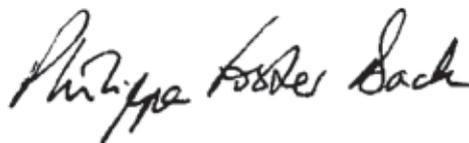
Since the beginning of time, business has depended upon trust and goodwill in order for commerce to flourish. Indeed, the word 'credit' has its origins in the Latin *credere*: 'to trust, entrust, believe'. It is clearly important that business is conducted in an open and honest manner - otherwise trust is eroded and businesses fail.

However, public trust in business continues to be low. In a regular Ipsos-MORI survey of trust in a range of professions, business leaders have consistently scored poorly with only a third of us trusting them to tell the truth. This underlines the need for businesses to take integrity issues seriously if they want to benefit from a reputation for ethical business practice and positive judgements of trustworthiness.

Here at the IBE we continue to seek ways in which we can help organisations to build and rebuild trust. It was clear to us that an important first step is to understand what trust really means within business and the critical role that internal trust plays in establishing and maintaining an ethical culture.

We are delighted that Dr Graham Dietz and Dr Nicole Gillespie have risen to the challenge and produced an engaging, insightful and helpful report about the enigmatic and vital concept of trust. The final part of the report provides practical guidance for an effective approach to trust repair. Reading this will help prepare managers for an integrity failure (of whatever nature), and help them consider in advance what responses are required to minimise the impact on trustworthiness.

We believe that this report will be helpful to those seeking to create an organisation that is resilient to trust and ethical failures. Should a trust failure strike your organisation, or should you be working to prevent one, we hope that the insights and examples contained in this report will prove valuable and effective.



Philippa Foster Back OBE

Director, Institute of Business Ethics

Sponsor's Foreword

Foreword

Trust: a prerequisite for success

Trust is fundamental to any organisation—especially a successful one—and always has been. Its importance has been highlighted by the current society-wide debate on the subject and this report represents a valuable contribution.

As well as being insightful, this report is also timely. Recent high-profile events have created a perception of a disconnection between corporate behaviour and ethical conduct, which in turn has triggered a sense that public trust in business has declined.

This rising tide of distrust should concern us all. Without trust, life for any organisation becomes much more difficult. Everything it says or does will be called into question. People will be suspicious of its motives. Ultimately they may refuse to share information or even to do business with it.

These deep business impacts underline the fact that trust is not a soft issue. Trust is a genuine and vital asset, an economic driver, a performance enhancer; it underpins an organisation's license to operate.

During PwC's discussions and debates on the subject, what has already become clear is that there is no silver bullet for building and sustaining trust. You cannot simply regulate your way to trust. Instead, it has to be earned through behaviour based on sound principles of honesty and integrity.

As awareness of the imperative to address this issue grows, a new agenda is emerging that requires businesses to embed the right culture and behaviours that can deliver both public trust and business success. A key part of this agenda is leadership and tone from the top. Business leaders will be expected to lead by example, by truly embodying the values and behaviours of their organisations, and by communicating and engaging with stakeholders in a manner that is not just transparent, but genuine. In a word, authenticity will become the order of the day.

The views expressed in this publication are those of the authors and the Institute of Business Ethics and we believe the insights it contains can play an important role in helping all of us reach a better understanding of the dynamics of trust, as a basis for building and sustaining this often overlooked or undervalued asset.



Richard Sexton
Executive Board, PwC UK



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Executive Overview

Overview

Living up to principles of trustworthy organisational conduct is a formidable challenge. Getting it wrong can damage stakeholders' trust, including that of employees, and also undermine the reputation of the organisation. Understanding and managing trust – how it is built, supported and recovered – is a critical competency for any organisation, and particularly for those that take their ethical values and commitments seriously.

If an organisation aspires to be considered as one that takes ethics seriously, it will need to be trustworthy and to foster trustworthiness in the workplace. It will also need to work on embedding ethical values. The two go hand in hand.

A trustworthy organisation is one that operates effectively (i.e. ability), acts with due concern for the interests of its stakeholders (i.e. benevolence), and conducts itself according to principles of honesty and fairness (i.e. integrity). The parallels with ethical standards are clear.

This report will show how trust and ethics complement each other, and how a better understanding of what drives trust and trustworthiness can help reinforce an organisation's aspirations for an ethical corporate culture.

The aims of this report are:

- To help businesses and other organisations understand what trust is and how it operates.
- To help them understand the drivers of trust at the interpersonal and organisation level.
- To outline strategies for building and sustaining a resilient reputation for organisational trustworthiness.
- To explore good and poor practice in repairing trust after an organisational failure.

As well as the ethical imperative, there is a powerful business case for paying careful attention to trust. Trust underlies effective working relationships, and compelling research evidence points to the positive impact of trust on employee attitudes and behaviours, group functioning and levels of organisational performance. In short, trust-based business costs less and is more productive. Additionally, a strong reputation for trustworthiness underpins organisational resilience and authenticity. Such a reputation can provide sustainable competitive advantage because it enables the organisation to attract and retain top talent, establish valuable business partnerships and retain a loyal customer base.

There are two challenges for organisations wanting to build and maintain a reputation for trustworthiness:

1. Running an organisation that has as its foundation strong principles and practices that prioritise and foster trustworthiness in *all* its operations and employees; and

2. Dealing with any failures in a manner that protects or recovers, and potentially even enhances, the organisation's reputation.

To build and sustain trust with external stakeholders, organisations need a strong foundation of *internal* trust with their employees. So this report's focus is on building and sustaining employees' trust in the organisation they work for and their colleagues. But the dynamics of managing trust with key external stakeholders are also considered.

This report draws on academic research on the 'science' of trust, including the authors' own research, combined with lessons learned from practitioner experience, and prominent case studies of trust failures and trust repair.

This report will be of value to anyone wanting to understand how to build, enhance or recover trust within their organisation – whether they are leaders, managers, staff representatives or employees. It will be of particular interest to managers charged with influencing organisational culture and embedding ethical values throughout a business, as well as those who would be called upon to help formulate the organisation's response to a failure of trust. It will be especially valuable to practitioners working in Business Ethics, Organisational Development, HR, and Public Relations, as well as managers and consultants whose work is driven by a concern for ethical working practices, organisational reputation, and corporate responsibility.

In Chapter 1, we review **the importance of trust**, its links with ethics, the business case for trust and the limits of trust.

In Chapter 2, we explain **what trust is and how it is established**. Trust is earned by demonstrating trustworthiness. So understanding what constitutes trustworthiness and how it is expressed in business is vital knowledge and a valuable skill. We show how perceived trustworthiness involves a judgement of ability, benevolence and integrity and describe how each can be demonstrated in work settings. We then explain how having positive expectations about another's trustworthiness enables people to take confident risks in dealings with that person or organisation, and how understanding trust helps us to manage this risk effectively. We also discuss why trust is critical even in heavily regulated organisations, and how controls and rules can support or undermine trust and trustworthiness.

In Chapter 3, we show **how an organisation's trustworthiness is built** and sustained. A key insight is that when judging their employer's trustworthiness, employees consider evidence and cues sent from six organisational elements. These are:

1. Leadership and management practices
2. Strategies, including for finance, sales, marketing, operations and HR
3. Cultural norms, beliefs and values
4. Structures, policies and procedures
5. The external governance regulating how the organisation can operate, and
6. Public reputation.

The organisational system (i.e. how the six components interact) strongly influences whether or not employees act in a trustworthy manner.

An organisation's reputation for trustworthiness among stakeholders rests heavily on the conduct of its employees. To help build a resilient foundation of organisational trustworthiness, the report will provide managers with practical interventions and consider how each element encourages or inhibits employees' trustworthiness, as well as the coherence of the system as a whole.

Chapter 4 examines **how to recover the trust** of employees and other stakeholders after a major failure. We describe best practice in each of four stages of trust repair; demonstrating trustworthiness in the immediate response to the failure, through the investigation of the causes, the reforming interventions and the evaluation of the trust repair response. Practical examples from case studies (e.g. Mattel, Toyota, BP, Siemens, BAE Systems, the BBC) illustrate key recommendations and guidelines. We conclude this chapter with a discussion of some of the tensions and paradoxes in organisational trust repair, outlining the merits of a 'relationship-based' versus 'legalistic' approach, the cost-benefit analysis of 'full' trust repair versus a more limited response, the possibility of an over-reaction, and market responses.

In the final chapter, we suggest a set of **good practice interventions** for building and repairing organisational trustworthiness, and summarise key insights and guidance. Our final observation is that each of us plays a role in encouraging and rewarding organisational trustworthiness, and sanctioning unethical practice, through the choices we make as citizens, customers, investors, advisors and employees.