

The Economics of Trust

Reap the dividends • BY STEPHEN M. R. COVEY

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Trust makes the world go 'round! Take away trust, and everything grinds to a halt, comes to a standstill. The financial crisis, at its roots, constitutes a loss of trust and confidence. The credit markets collapse when almost everyone is afraid to loan money because nobody knows who will be able to pay it back. Credit is trust, and trust is credit.

Mirroring this decline of trust in the marketplace, it seems almost everywhere else we turn, we find trust is decreasing. This is particularly true in our companies. Findings from Watson Wyatt's "WorkUSA 2006/2007" study show only 49 percent of employees trust senior management, and only 36 percent believe top managers act with honesty and integrity. While the consequences of low trust in the marketplace have become disastrously clear, we're left to wonder whether the consequences of low trust in organizations are similarly painful.

Few argue with the notion of trust. Everybody is in favor of it, and nobody is against it. But at the end of the day, many managers don't really believe internal organizational trust is directly connected to their companies' bottom lines. Instead, they believe trust is merely a soft, nice-to-have "social virtue."

There are, however, an increasing number of learning leaders who have become convinced that this so-called "soft" trust factor is, in reality, a "hard-edged economic driver." Consider the 2002 study by Watson Wyatt surveying 12,750 workers across all industries that showed that high-trust organizations had a total return to shareholders — stock price plus dividends — that was 286 percent higher than low-trust organizations.

What are the economics of trust that make this remarkable return possible? Trust always affects two measurable outcomes: speed and cost. When trust goes down, speed goes down and cost goes up. This creates a low-trust tax. My experience is that significant distrust doubles the cost of doing business and triples the time it takes to get things done. Thankfully, the inverse is true: When trust goes up, speed

goes up and cost goes down. This creates a high-trust dividend. It's that simple, that predictable.

Once learning leaders understand the hard, measurable economics of trust, it's like putting on a new pair of glasses. Everywhere we look, we can see quantifiable impact. If we have a low-trust organization, we're paying a tax. While these taxes may not conveniently show up on the income statement as "trust taxes," they're still there, disguised as other problems.

When we know where and what to look for, we see low-trust taxes everywhere, including redundancy, bureaucracy, office politics, employee disengagement, employee turnover, churn of other stakeholders and fraud. For example, a recent study by the Association of Certified Fraud Examiners estimated that U.S. employers lose almost \$1 trillion to fraud

annually. Add to that number the millions it will cost in litigation and new regulations to clean up the mess. The low-trust tax keeps rising. But it's not impossible to stem the flow.

Just as the taxes created by low trust are significant, the dividends

of high trust also are incredibly high. When trust is high, the dividend we receive is a performance multiplier, elevating and improving every dimension of the organization. High trust is like a rising tide that lifts all boats. The Watson Wyatt study strongly validates this premise of increased value. Additional high-trust dividends include accelerated growth, enhanced innovation, improved collaboration, stronger partnering, better execution and heightened loyalty.

When you add up all the dividends of high trust and you put those on top of the fact that high trust decreases or eliminates all the taxes, is there any doubt that there is a significant, direct and indisputable connection between high trust, high speed, low cost and increased value?

Bottom line: Nothing is as fast as the speed of trust. Nothing is as profitable as the economics of trust. It's truly the one thing that changes everything. **CLO**

DATA POINT:

Only 36 percent of employees believe top managers in their organizations act with honesty and integrity.

Source: Watson Wyatt "WorkUSA 2006/2007"