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CFO Insights
April 2022

Why *trust* should be one of your key performance indicators

Stories abound of companies losing trust with their stakeholders. Some involve privacy breaches, misinformation, or disinformation; others chronicle companies that simply failed to live up to their promises.

The stakes, in each case, are high: A recent Deloitte analysis found examples of three large global companies, each with a market cap of more than $10 billion, that lost 20% to 56% of their value—a total $70 billion loss—when they lost their stakeholders' trust.[1] Trust—or lack thereof—has thus become a mainstay topic in headlines across the world (see "Believe it: Why trust may be the new driver of enterprise value," *CFO Insights*, February 2021).

Many C-suite executives, including CFOs, recognize the need to build or rebuild trust in their organizations. However, they often struggle to understand exactly how trust can be defined, managed, and measured. Indeed, trust is commonly considered an abstract or even nebulous concept, and some organizations don't prioritize trust or treat it with the same focus and urgency as they do other business priorities. But the potential benefits for those companies that are considered trustworthy can be significant. Recent research suggests that these companies can outperform the S&P 500 by levels as high as 30% to 50%.[2]

We believe that trust should be seen as a tangible, strategic, and critical asset, given the real, quantifiable value that it can bring to an organization. And it should be managed much like other assets on the organization's balance sheet, by considering its drivers and implications more deeply across the enterprise. With this perspective, organizational trust should be built from the inside out,[3] through levers and actions that cut across the functional areas of a business, from product quality to data protection to financial integrity.

Organizational trust also depends on the needs and perspectives of an organization's different stakeholders—board members, investors, customers, suppliers, and employees—so the relative impact of trust-building actions should be framed and viewed through the lenses of these stakeholders as well. Organizations that proactively approach trust management in this way can build what we refer to as *trust equity*, helping create positive impacts on their bottom line and a layer of resilience protecting the organization against potential breaches of trust.

In this issue of *CFO Insights*, we'll offer a statistically verified approach for measuring trust across different operating domains—one that can help leaders identify their organization's potential sources of a trust breakdown or areas where building trust proactively can help create a competitive advantage.

Understanding trust at the operating level

Organizational trust is multifaceted. So to understand, act on, and manage it across stakeholders, it may be helpful to consider its different components.

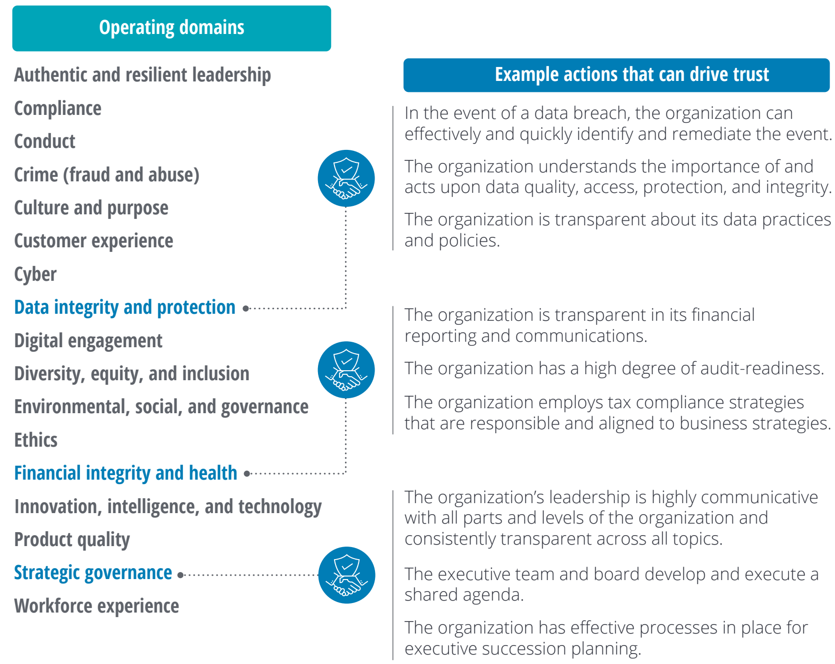
At its core, trust is the foundation of a meaningful relationship between an entity and its stakeholders at both individual and organizational levels. Trust is built through actions that demonstrate a high degree of competence and the right intent, which result in demonstrated capability (possessing the means to meet expectations); reliability (consistently and dependably delivering upon promises made); transparency (openly sharing information, motives, and choices in plain language); and humanity (genuinely caring for the experience and well-being of others).[4]

Managing an asset as complex as trust thus necessitates a more robust lens; it requires understanding trust-driving activity across the enterprise and through the perspectives and priorities of different stakeholders, including customers, employees, the board, investors/shareholders, communities, regulators, suppliers, and others. It is typically at deeper operating levels and with a multistakeholder perspective that an organization can earn—and when needed, rebuild—trust.

Deloitte interviewed more than 50 internal subject-matter specialists and more than two dozen C-suite executives from global Fortune 500 companies across sectors to identify the operating areas within an organization that influence trust with different stakeholders. We refer to these operating areas as "domains." From this list (see Figure 1), a set of actions was identified that support earning and building trust in each of the given domains.

FIGURE 1

Trust can be evaluated at deeper levels within the organization



Source: Deloitte analysis.

A trust questionnaire was then built from this analysis and fielded in October 2020, April 2021, and again in September 2021. Nearly 3,000 executives across the globe representing a wide range of industries and sectors were surveyed to understand what actions and operating domains they believe are most important to driving trust in their organizations and sectors, and ways they measure how their organizations are performing relative to peers. Statistical tests indicated a high reliability of these measures,[5] meaning that the trusted actions indeed reflect the domains being measured.

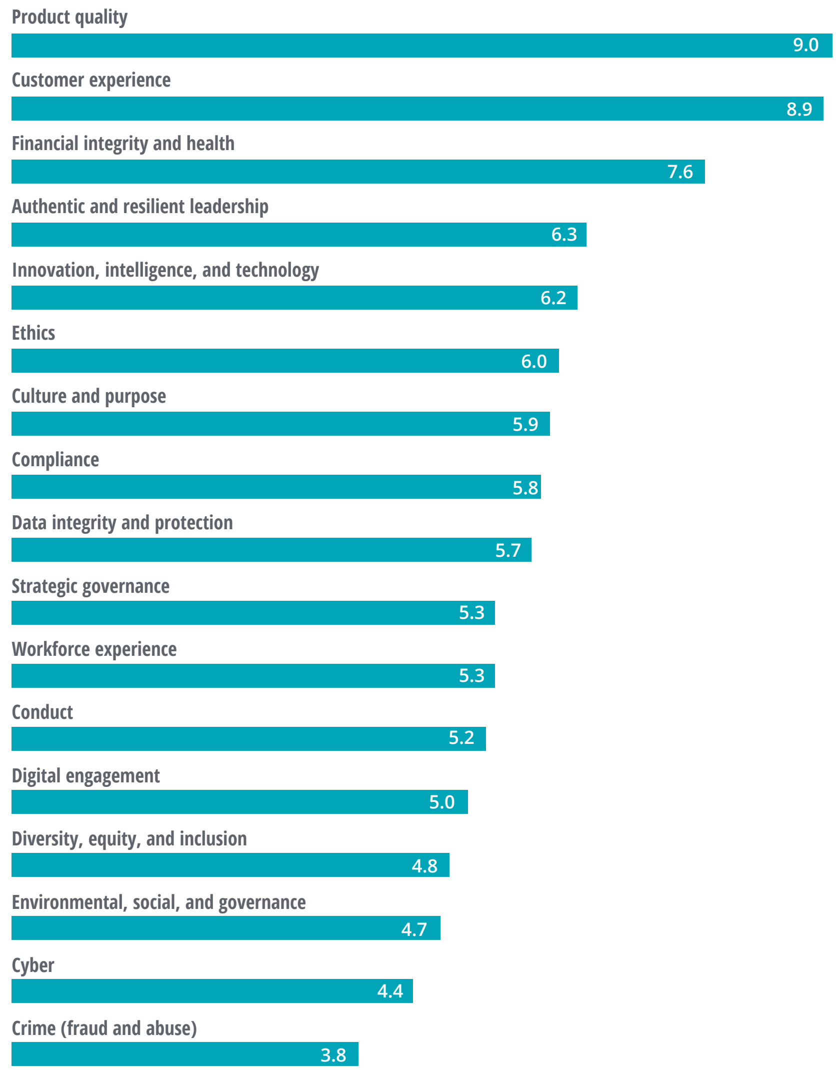
Given the fluid and dynamic nature of business, actions taken in these areas may overlap and complement each other at the same time. For example, cybersecurity actions can be closely linked with data privacy and protection, whereas ethics can be reflected in an organization's culture, values, and mission statement. Some domains are more customer-facing and front office-oriented, such as customer experience; others are more back-office/operationally focused, such as compliance, strategic governance, financial integrity, and health. Each domain is important,

but, as would be expected, some will be more important than others for different stakeholders, depending on the business and its sector.

FIGURE 2

All domains are important to building stakeholder trust, but some may be more so

Average domain importance scores (cross-industry) from the perspective of executives



Note: A group of global executives were asked to allocate 100 points across the above operating domains based on the relative importance of each to building trust with stakeholders in their sector. Each domain had to receive at least one point.

What the trust research found

In this research, senior executives were asked to rate which areas are more important for their business, relative to other areas, in maintaining stakeholder trust (see Figure 2). For example, responding executives in the consumer industry were more likely to consider customer experience to be the most important contributor to trusted relationships, in contrast to executives from the energy, resources, and industrials industry, who ranked product quality to be most important.

As the rankings reveal, organizations recognize the relative importance of trust across these different operating areas, and yet their performance levels in building trust across domains may differ. Specifically, in this research, trust performance was measured by asking executives to indicate the extent to which their organization performs a series of trusted actions related to each operating domain. Consider, for example, the measurement of trust performance in customer experience where respondents were asked the extent to which their organizations prioritize providing superior customer service, including digitally driven experiences.

Trust performance scores for each domain as measured by executives at large global organizations are presented in Figure 3. The results indicate that many companies are taking some action in all areas, but there is still room for improvement. Interestingly, these trust performance scores suggest businesses are more likely to be better at building trust in areas where they have more experience developing capabilities and taking action. For example, trust performance measures in operating domains such as crime, culture and purpose, compliance, and product quality were higher than for domains such as diversity, equity, and inclusion (DEI), environmental, social, governance (ESG), or innovation, intelligence, and technology. This may indicate that the large organizations that these responding executives lead have more experience building trust in areas that are essentially table stakes for running a business, such as preventing fraud and crime, developing a supportive organizational culture, and improving product quality.

While table stakes domains are indeed crucial for the business, research suggests that areas such as data protection, DEI, and ESG are becoming increasingly important to a growing number of stakeholder groups—so it's likely that more and more businesses will start paying closer attention to these domains going forward. Organizations should prioritize earning trust with stakeholders in areas that go beyond their comfort zone, with which they're not as familiar and where capabilities are still maturing. Otherwise, companies risk leaving themselves exposed to a loss in trust if issues arise.

Operating domains in action

Specific, tangible actions within a given operating domain that demonstrate an organization's competence and intent can arguably make a positive impression on stakeholders, impacting their behaviors and ultimately generating value for an organization.

For instance, an organization can offer specific training to mitigate unconscious bias and prioritize DEI in its hiring and retention methods, policies, and programs, which can then create a more inclusive workplace and foster innovation.[6] For ESG, organizations can set meaningful goals and targets, review their ESG impact, and effectively embed this into financial decisions, all of which can drive "social credibility" and positively impact areas such as talent retention and investment returns.[7]

The Ritz-Carlton offers an example of how an organizational culture that promotes purpose and performance can help improve workforce experience and earn stakeholder trust. Its motto, "We are ladies and gentlemen serving ladies and gentlemen," seems designed to instill respect and a sense of purpose in all employees at the hotel.[8] Hotel managers also invite and expect employees to participate in continuous improvement programs, giving these workers a voice in the operations of the hotel chain. Enhanced employee involvement increases the trust that employees have in their leaders as they can see the value that their participation offers. And by being invited to participate in continuous improvement, the organization hopes employees are given "a sense of equality and purpose to their jobs." All of these benefits translate into annual turnover rates (20%) significantly lower than the industry average (78.8%), numerous quality awards, and an improved bottom line.[9] (For additional examples, see "Can you measure trust within your organization?" *Deloitte Insights*, February 2022.)

FIGURE 3

Opportunity exists to improve trust across domains

Trust measurement performance by operating domain; average scores from the perspective of global executives

Domain	Trust performance score
Crime (fraud and abuse)	81
Culture and purpose	79
Compliance	78
Product quality	77
Conduct	77
Authentic and resilient leadership	76
Ethics	76
Cyber	76
Financial integrity and health	75
Data integrity and protection	75
Customer experience	73
Digital engagement	73
Strategic governance	71
Workforce experience	70
Diversity, equity, and inclusion	68
Environmental, social, and governance	68
Innovation, intelligence, and technology	67

Note: For each operating domain, a group of global executives was asked to evaluate the extent to which their organization executes specific activities that drive trust in that area, using a five-point Likert scale + "not sure." Anywhere from three to eight different trust actions were evaluated for each domain. These responses, exclusive of "not sure" answers, were converted to a 100-point scale to calculate a trust score for each domain.

As this example shows, improved performance around these trusted actions can help drive positive stakeholder behaviors such as increased employee engagement, higher employee and customer retention rates, and customer loyalty. In fact, data suggests that nearly 80% of employees who highly trust their employer feel motivated to work.[10] Nearly 90% of customers who highly trust a brand have bought again from that brand, and 62% of customers who report highly trusting a brand buy almost exclusively from that brand.[11] Significantly, these improved stakeholder behaviors can contribute to operating metrics as well. Employees who are more satisfied in their job tend to be more engaged, delivering greater productivity, lower costs via lower turnover, and greater innovation.[12] Customers who are more loyal to their brand are more likely to try new products and to spend more, on average, than new customers, resulting in higher margins.[13]

Making trust actionable

In order to manage the expectations of a growing ecosystem of stakeholders, organizations should make trust a strategic priority. While organizations know this, moving from knowledge to action can often be a struggle given the complex nature of trust. There are a number of relatively straightforward steps leaders should consider to manage trust as a strategic asset comparable with other important organizational assets. These include:

- **Explore trust levels in your organization**. Develop an understanding, and get an initial sense, of what trust expectations exist in the eyes of an organization's various stakeholders. Be mindful of the fact that different groups may have different priority areas. Surveys of different stakeholder groups, such as employees, customers, or investors, can be a helpful tool, as can automated sensing platforms, which are becoming increasingly effective through advances in artificial intelligence and other technologies.
- **Diagnose critical gaps**. Leverage data, industry benchmarking studies, and output from the initial exploration phase to identify the areas within the organization that may be experiencing trust gaps.
- **Prioritize**. It is probably neither practical nor feasible to address all trust gaps across the entire enterprise at one time. Instead, leaders can prioritize focus areas by looking at the implications of each trust driver relative to the strategic priorities of the organization. Leaders can also consider how their organization compares with others within their sector or industry or set their own goals relative to leading indicators of trust-related performance from other industries or sectors.
- **Activate**. By focusing on the areas that are the most critical to driving trust through specific strategic initiatives over time, organizations can see an elevation in levels of trust and the corresponding impact on stakeholder behavior.
- **Protect for the future and build trust equity**. Because the organization is constantly evolving as part of a complex ecosystem, trust across operating domains should be measured on an ongoing basis to anticipate and proactively address issues before they could lead to significant trust gaps. This ongoing focus on trust-building can eventually earn trust equity to aid the organization when/if negative trust events occur.

Equipped with these steps, organizations can be in a position to make trust a strategic asset rather than a potential risk should problems arise. However challenging managing trust may be, it is an effort worth taking if organizations are to continue to meet their strategic objectives and serve the needs of a growing list of stakeholders in an increasingly complex world.

End notes

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