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

Operating domains

- Authentic and resilient leadership
- Compliance
- Conduct
- Crime (fraud and abuse)
- Culture and purpose
- Customer experience
- Cyber
- **Data integrity and protection**
- Digital engagement
- Diversity, equity, and inclusion
- Environmental, social, and governance
- Ethics
- **Financial integrity and health**
- Innovation, intelligence, and technology
- Product quality
- **Strategic governance**
- Workforce experience

Example actions that can drive trust

Data integrity and protection:
- In the event of a data breach, the organization can effectively and quickly identify and remediate the event.
- The organization understands the importance of and acts upon data quality, access, protection, and integrity.
- The organization is transparent about its data practices and policies.

Financial integrity and health:
- The organization is transparent in its financial reporting and communications.
- The organization has a high degree of audit-readiness.
- The organization employs tax compliance strategies that are responsible and aligned to business strategies.

Strategic governance:
- The organization's leadership is highly communicative with all parts and levels of the organization and consistently transparent across all topics.
- The executive team and board develop and execute a shared agenda.
- The organization has effective processes in place for executive succession planning.

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.

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.

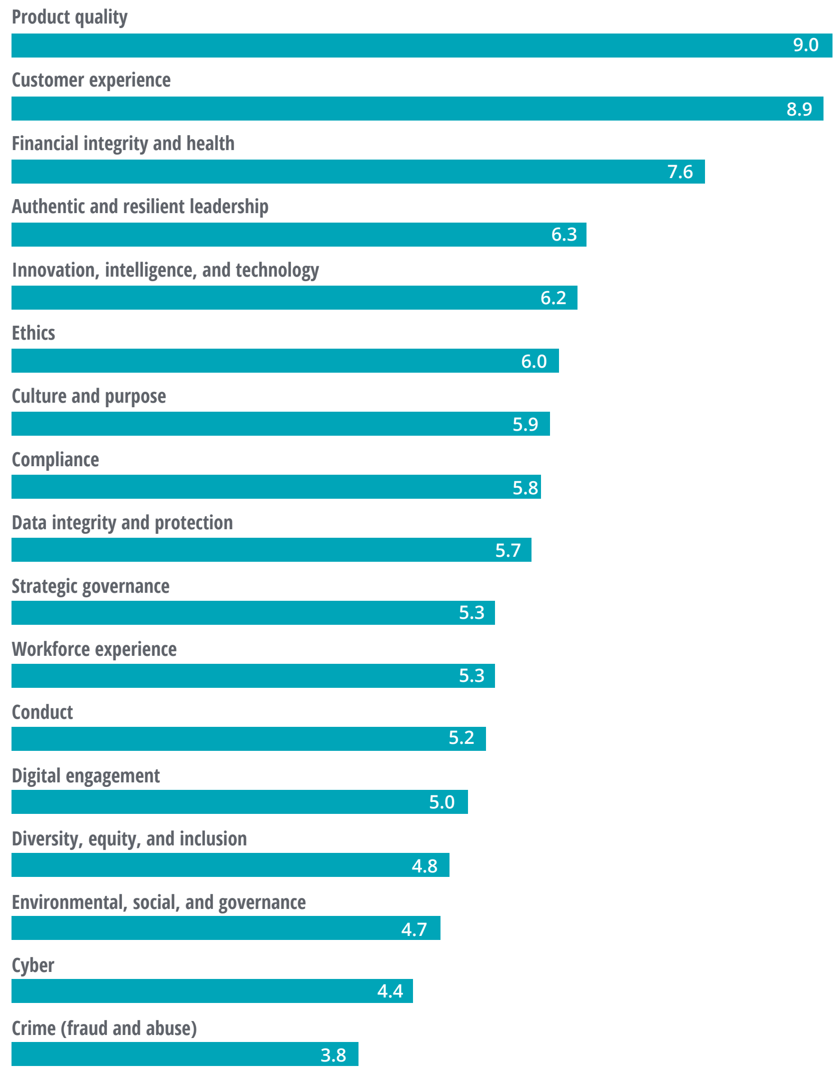
As the rankings reveal, organizations recognize the relative importance of trust across these different operating areas, and yet their performance levels in building trust across domains may differ. Specifically, in this research, trust performance was measured by asking executives to indicate the extent 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

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.

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.

End notes

1 Deloitte, The chemistry of trust—Part 1: The future of trust , accessed January 2022.

2 Lawrence A. Cunningham, "Opinion: Why high-quality, trustworthy companies have beaten the S&P 500 by 30%-50%," *Market Watch*, July 3, 2021. The companies in the studies referenced were deemed "trustworthy" based on both quantitative and qualitative indicators including the company's financial integrity and stability, employee reviews, and news-related sentiment.

3 Sandra Sucher and Shalene Gupta, *The Power of Trust, How Companies Build It, Lose It, Regain It*, Public Affairs, 2021, p. 20.

4 Thomas C. Redman and Robert M. Waitman, "Do you care about privacy as much as your customers do?," *Harvard Business Review*, January 28, 2020.

5 The Cronbach alpha coefficients for each operating domain met the minimum recommended threshold of 0.7, showing evidence of strong internal reliability.

6 Ilana Redstone, "How DEI training can promote innovation by fostering respect for diverse perspectives," *Forbes*, August 29, 2021.

7 *McKinsey Quarterly*, "Five ways that ESG creates value," November 14, 2019.

8 Ritz Carlton, "Gold standards," accessed January 2022.

9 Sucher and Gupta, *The Power of Trust, How Companies Build It, Lose It, Regain It*, Public Affairs, 2021.

10 Deloitte HX TrustID survey, May 2020.

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12 John Baldoni, "Employee engagement does more than boost productivity," *Harvard Business Review*, July 4, 2013; CIPD, Employee engagement and motivation, January 27, 2021.

13 Jessica Huhn, "Why your existing customers are your best customers," *Business 2 Community,* May 16, 2019.

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