

The Age of Distrust – A European Perspective

DRAFT – Not for Publication

By Robert Porter Lynch and Paul R. Lawrence

The Importance of Trust

Trust is the foundation of all collaborative enterprise, whether for growing a family, enjoying friends, prospering in marriage, running a government, winning in sports, or building a profitable business.

However, all too often, trust is given little attention, not because of its lack of importance, but because the pitiful lack of understanding of this crucial element of personal and business success.

In our comparative analysis of prosperity among countries, there is a clear correlation between a country's trust rating¹ and the prosperity of its people; it is no coincidence that out of the ten most highly trusted nations across the globe, nine weigh heaviest on the Happiness Index.²

This same correlation holds for companies competing within in industry segment. We compared three industries, steel, autos, and airlines. In each of these industries, strategy plays only a very limited role, technology is equalized for each competitor, change is relatively linear, and the inputs from suppliers and outputs to customers are basically same for virtually all competitors.³

In each of the industry clusters, the clear advantage went to the high-trust competitor. Why? Primarily because trust provided key competitive edges: the most trusted companies outperformed their rivals by reducing transaction costs, reducing complexity, accelerating innovation flows, increasing individual performance within teams and across organizational boundaries, and developing highly effective alliances with suppliers and customers. For example, by focusing on improving trust in software debugging teams, team productivity increased anywhere from 20-200%.⁴

What's more, trust creates more than just higher performance. Retention of the best employees is also a major factor. Economist John Helliwell of the University of British Columbia found that just a 10% increase in trust produced a sense of well-being that was equal to a \$40,000 (USD) pay increase,⁵ resulting in far greater personnel stability within the organization.

Is the Age of Distrust Real?

Our times have been referred to as the AGE of DISTRUST. Is it true? Or are we just more sensitive now? To determine the State of Trust and if there is a real Trust Deficit across Europe, we did an analysis of the hard data on trust.

¹ See Transparency International (2010), and chart in Appendix

²² See Gallup Poll Happiness Index (2005-2009) in Appendix

³ See chart in Appendix

⁴ Personal discussions with senior software developer, Ross Smith at Microsoft

⁵ Helliwell, J. F., & Wang, S. (2011). Trust and wellbeing. *International Journal of Wellbeing*, 1(1), 42-78. Analysis of data from Canada & U.S. of nearly 30,000 survey respondents.

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Despite the compelling evidence of the trust advantage, and years of emphasis on ethics, trust continues to teeter on the edge of uncertainty throughout Europe and in America.

There are serious signs of stress in the public's perception of our institutions.⁶ The 2010 Eurobarometer, the EU Commission's regular assessment of Public Opinion⁷ reported less than encouraging statistics; ranking institutions from the most to the least trusted:

- Army (trusted by 70%)
- Small Business Enterprises (SMEs) (66%)
- Justice and the Legal System, (47%)
- Religious Institutions (40%)
- Banks (40%) (Even in Switzerland, considered the bastion of banking worldwide, 49% of Swiss are distrustful of banks. In another 2011 poll⁸, Banks have not fared well, being distrusted by 56% of Europeans.)
- Trade Unions (38%)

At the bottom are those institutions trusted by less than a third of the populace:

- Parliament (31%) and National Government (28%)
- Large Corporations (30%)
- Political Parties (meager 15%)
- Advertising was trusted only by a mere 14% of Europeans⁹

As a profession, politicians are at the bottom of the heap, trusted by only 8% of Europeans. In fact, in one European poll¹⁰ of 33,000 people, car salesmen were twice as likely to be trusted as politicians (16% versus 8%). One can only surmise with trepidation how low confidence has to plummet in democratic institutions before the very foundations of democracy are in peril.

Examples of how Several Different Countries Perceive Trust

In the UK, Britons believe business people will be 10 times more likely to lie than a doctor, but government ministers, journalists, and politicians were rated even worse.¹¹ More than 80% of Britons expect their politicians and government ministers to lie. The only good news: These figures have changed little in 25 years, mired in a generation of oblivion and skepticism.

⁶ 2011 Readers Digest Poll of 33,000 Europeans (including Eastern Europe, excluding UK, Spain, Italy)

⁷ Eurobarometer Publication 74, pp 25-27, 27 European Union Member States, ~ 27,700 interviews the four candidate countries² (Croatia, the former Yugoslav Republic of Macedonia, Turkey and Iceland), ~4,00 interviews

⁸ Reader's Digest Most Trusted Brands Survey 2011~33,000 people

⁹ Reader's Digest Trusted Brands Survey 2011

¹⁰ Reader's Digest, Trusted Brands Survey, 2011

¹¹ 2009 Ipsos-MORI Survey, ~2000 people

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The French are more cynical. Only 19% of French people trust government and the banking system, and less than 30% trust the press (exceeded in Europe only by 12% of Russians willing to give the press a trustworthy rating)¹²

While nearly 50% of Germans trust the press to tell the truth, only 6% believe that advertising is trustworthy.¹³ In Switzerland, considered one the top 10 most trusted countries in the world,¹⁴ nearly half the country trusts neither its banks, nor international companies, nor its government, nor the press.¹⁵

In North America, Canadians see business as their least trusted institution. But in the United States, trust has sunk to perilous levels. Trust in government has plummeted from a high in the early 1960s of nearly 80% to an all-time low, now mired at 19%.¹⁶ Only 23% of Americans would trust a judge to give a fair verdict in a trial, and an appalling 25% of Americans trust banks, 14% trust accounting firms, 13% trust life insurance companies and financial planners, 12 % trust health insurance companies, and a meager 4 % trust Wall Street and Credit Card Companies (and 3 out of 5 Americans trust none of these).¹⁷ It seems few people are paying attention to this perilous problem.

While we are more connected today than ever, we are more transactional and less compassionate and focused on the greater good of all, which is one of the fundamental tenets of trust.

Case Example: One Profession & Industry -- Journalism and the Economics of Trust

Currently the Press is undergoing a tremendous upheaval. Its economic foundations are being challenged by other media resources, particularly by the internet. A careful analysis will show that 57% of Europeans don't trust the press¹⁸ and even more – 81% don't trust advertising. (In two of Europe's major population centers: Britain and France, the distrust of journalists runs significantly higher).

In France, as in many other countries, people no longer regard the press and politics as independent of one another, a malaise that is spreading across Europe, according to a 2008 Eurobarometer poll of 27 EU countries. Sadly, this figure is significantly lower than it was a decade earlier as “trust in the media is ebbing away.”¹⁹

Both journalism and its economic base, advertising, are *highly distrusted* in the eyes of the European consumer; the two pillars of the journalistic profession have collapsed. Consumers have lost confidence in the fourth estate. Compare this to the fact that nearly half of the European populace trusts the

¹² Reader's Digest Trusted Brands Survey 2011

¹³ Reader's Digest Trusted Brands Survey 2011

¹⁴ Transparency International, Corruption Perceptions Index, October 2010, page 3

¹⁵ Reader's Digest Trusted Brands Survey 2011

¹⁶ Pew Research Foundation, April, 2010

¹⁷ Harris Polls, 2008-2009

¹⁸ Reader's Digest Trusted Brands Survey 2011

¹⁹ Association of European Journalists Report, November 2008, William Horsley, author

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internet²⁰. Trust is unquestionably a key issue in understanding the shifts away from traditional media, yet it seems no one is trying to attract customers based on *rebuilding trust* in the traditional media.

Can Trust Improve?

Is the whole world just going negative, or can things improve? In Britain, over the last 25 years, while the overall trust level has not improved, the public's trust esteem in doctors, teachers, and professors has risen by a wholesome 10%, while clergy have fallen by that same amount, and other professions have faltered as well. However, "not getting worse" is faint praise for something as precious to human well-being and economic performance as trust.

In Eastern Europe, trust has improved with the demise of the Communist regimes, but the legacy of distrustful cultures promises to linger for years to come.

Trust is an orphan in the academic world; its interdisciplinary nature means that no one field of expertise "owns" the authoritative keys to understanding trust. Thus it belongs neither to the specializations of psychology, philosophy, business, strategy, biology, neuroscience, anthropology, sociology, nor political science. Yet all of these disciplines hold a part of the puzzle to understanding the nature of trust. Without a strong "architecture" for trust (which we address in our work on trust), we cannot expect much progress in the future.

We believe that with a good grasp on the realities of how trust is both destroyed and formed, a leader can be highly effective in building an organization that leverages the advantages of trust.

What Must Be Done

The first step is to *recognize* the critical importance of trust in business and government. Trust is the *life blood* of all human relationships. As Confucius observed more than two thousand years ago, without trust, life is not worth living, for trust is the foundation for the flourishing of any civilization.

Second, we believe it is vital to place a high *premium* on creating trust, not only for its economic value deriving from lower transaction costs, improved communication of needs and opportunities with customers and suppliers, increased innovation flow, but also because of the well-being it creates for the workforce and for customer loyalty. Trust is the enabling mechanism for creating real synergies.

Third, leaders must develop a reasonable *understanding* of the nature of trust, just as they have a basic understanding of professional standards, profit and loss statements, marketing plans, and budgets. Understanding the nature of trust involves knowing how the brain responds to fear, the means of destroying trust, the types of trust that can be produced, and the key principles that bring it into being. (These factors are the fundamentals in the *Trusted to Lead* book).

And fourth, make a powerful *commitment* to trust as the foundation and central organizing principle of any organizational culture. Hiring, training, and promotion should all be done with trust as a core theme.

²⁰ Reader's Digest Trusted Brands Survey 2011

Appendix of Data

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Transparency International High Trust-Low Corruption 2010 Index

Gallup Poll – World Happiness Index

Surveyed respondents in 155 countries, between 2005 and 2009
 Asked subjects to reflect on their overall satisfaction with their lives, and ranked their answers using a "life evaluation" score from 1 to 10. Then asked questions about how each subject had felt the previous day.
 (Note: This ranks first by % Thriving, which is a good indicator of Economic Prosperity)

COUNTRY/ RANK TERRITORY	SCORE	Rank (By % Thriving)	COUNTRY	REGION	Percent Thriving	Percent Struggling	Percent Suffering	Daily Experience
1 Denmark	9.3	1	Denmark	Europe	82	17	1	7.9
1 New Zealand	9.3	2	Finland	Europe	75	23	2	7.8
1 Singapore	9.3	3	Norway	Europe	69	31	0	7.9
4 Finland	9.2	4	Sweden	Europe	68	30	2	7.9
4 Sweden	9.2	4	Netherlands	Europe	68	32	1	7.7
6 Canada	8.9	6	Costa Rica	Americas	63	35	2	8.1
7 Netherlands	8.8	6	New Zealand	Asia	63	35	2	7.6
8 Australia	8.7	8	Canada	Americas	62	36	2	7.6
8 Switzerland	8.7	8	Israel	Asia	62	35	3	6.4
10 Norway	8.6	8	Australia	Asia	62	35	3	7.5
11 Iceland	8.5	8	Switzerland	Europe	62	36	2	7.6
11 Luxembourg	8.5	12	Panama	Americas	58	39	3	8.4
13 Hong Kong	8.4	12	Brazil	Americas	58	40	2	7.5
14 Ireland	8.0	14	United States	Americas	57	40	3	7.3
15 Austria	7.9	14	Austria	Europe	57	40	3	7.7
15 Germany	7.9	16	Belgium	Europe	56	41	3	7.3
17 Barbados	7.8	17	United Kingdom	Europe	54	44	2	7.4
17 Japan	7.8	18	Mexico	Americas	52	43	5	7.7
19 Qatar	7.7	18	Turkmenistan	Asia	52	47	1	7.5
20 United Kingdom	7.6	20	United Arab Emirates	Asia	51	48	1	7.7
21 Chile	7.2	21	Venezuela	Americas	50	48	2	8.0
22 Belgium	7.1	22	Ireland	Europe	49	49	2	7.5
22 United States	7.1	23	Puerto Rico	Americas	47	45	8	7.6
24 Uruguay	6.9	23	Kuwait	Asia	47	50	3	7.0
25 France	6.8	23	Iceland	Europe	47	49	4	8.2
26 Estonia	6.5	26	Colombia	Americas	46	47	7	7.7
27 Slovenia	6.4	26	Jamaica	Americas	46	49	5	7.7
28 Cyprus	6.3	28	Cyprus	Asia	45	50	5	6.6
28 United Arab Emirates	6.3	28	Luxembourg	Europe	45	54	1	7.3
30 Israel	6.1	30	Trinidad and Tobago	Americas	44	51	5	7.9
		30	Argentina	Americas	44	50	6	7.8

Correlation: Of the Top 10, 9 of 10 of the High Trust Countries were Highest Happiness
 Of the Next 20, 10 out of 20 of the Next Tier Trust Countries were High Happiness

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From The Warren Company Industry Analysis of Trust in Industries in U.S. and Canada

Competitive Advantage of Trust

Three industries demonstrate the Massive Advantage of Trust-Generated Synergy

In these industries, strategy plays only a very limited role, technology is equalized, change is linear, & the inputs and outputs are the same for virtually all competitors:

AIRLINE INDUSTRY:

- **Inputs -- All Airline Companies:**
 - Buy planes from the same three/four Aircraft Manufacturers
 - Use the same Airports
 - Have the same Unions and access to same Labor Pool
 - Abide by the same Federal Regulations
 - Utilize the same IT infrastructures
- **Outputs: All Airline Companies**
 - Fly Passengers and Cargo to the same Destinations
 - Compete for the same sources of Revenue
- **Profitability:**
 - In the U.S. the High-Trust Culture belongs to **Southwest**, and it has been the most consistently profitable airline
 - In Canada, there are two primary airlines: Air Canada and West Jet, which modeled itself after Southwest. **West Jet** consistently outperforms Air Canada.



AUTOMOBILE INDUSTRY:

- **Inputs -- All Automotive Manufacturers:**
 - Procure 70-80% of the components of an auto from the same Supply Base
 - Buy Manufacturing Equipment from the same companies
 - Have the same access to Labor Pools
 - Abide by the same Federal Regulations
- **Outputs: All Automotive Manufacturers**
 - Produce cars and trucks with the same Basic Configurations
 - Sell and service through the same types of Dealerships
- **Profitability:**
 - In the U.S. the most consistently profitable companies have been the High-Trust companies (Japanese Manufacturers: **Toyota, Honda, Nissan, Chrysler – 1990s**)

STEEL INDUSTRY:

- **Inputs -- All Steel Companies:**
 - Procure either Steel Billets or Scrap Iron/Steel from the same Supply Base
 - Buy Steel Manufacturing Equipment from the same Suppliers
 - Have the same access to Labor Pools
 - Abide by the same Federal Regulations
- **Outputs: All Steel Manufacturers:**
 - Produce with the same Basic Configurations: Plate, Sheet, Girders, Tubing, Wire, etc.
 - Sell to the same Customer Base
- **Profitability:**
 - In the U.S. the most consistently profitable company has been **Nucor Steel** – the High-Trust, High Collaboration Company

The Profit Winners:

- **High Collaboration &**
- **High Innovation from:**
- **High Trust, High Honor**

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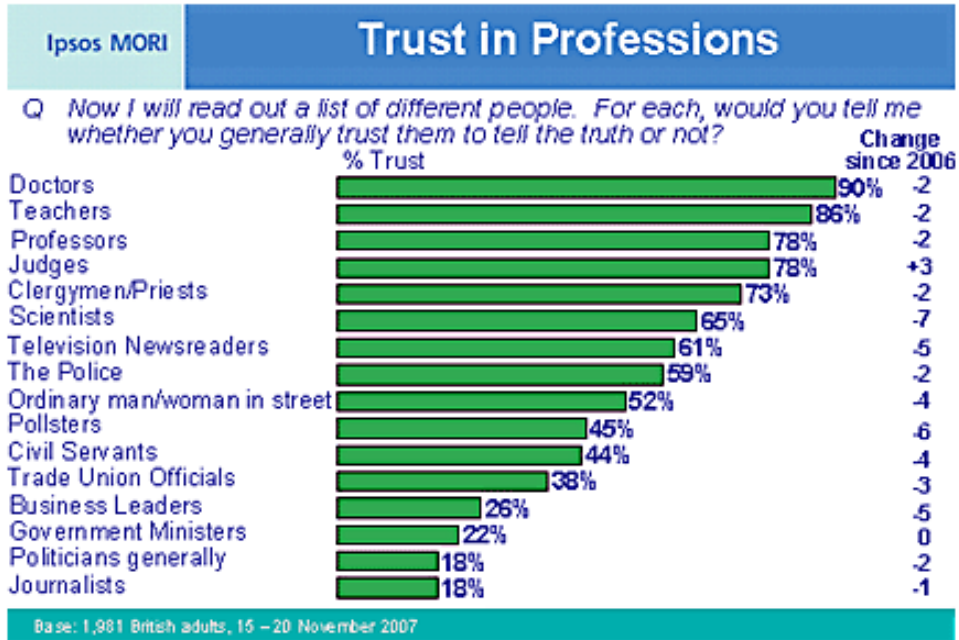
From Reader's Digest Poll -- 2011

Average agreement across all countries

Rank	Profession	Trust			Don't Trust		
		A great deal	Quite a lot	Total	Not much	Not at all	Total
1	Fire fighters	54%	39%	93%	3%	0%	3%
2	Airline pilots	41%	48%	89%	6%	1%	8%
3	Nurses	29%	56%	84%	12%	2%	13%
4	Pharmacists	25%	59%	84%	12%	1%	13%
5	Doctors	25%	57%	81%	15%	1%	16%
6	Farmers	20%	56%	76%	18%	2%	21%
7	Teachers	16%	60%	75%	19%	2%	21%
8	Meteorologists	9%	51%	60%	32%	5%	37%
9	Police	14%	46%	59%	31%	6%	38%
10	Judges	8%	38%	46%	39%	11%	50%
11	Taxi drivers	5%	40%	45%	41%	11%	52%
12	Lawyers	5%	37%	42%	45%	10%	54%
13	Priests/church ministers	9%	30%	39%	36%	22%	58%
14	Travel agents	2%	33%	35%	51%	10%	61%
15	Journalists	2%	26%	29%	53%	14%	68%
16	Financial advisors	2%	26%	28%	55%	13%	68%
17	Trade union leaders	3%	21%	24%	47%	26%	73%
18	Football players	3%	17%	19%	45%	32%	77%
19	Car salesmen	1%	15%	16%	60%	20%	80%
20	Politicians	1%	7%	8%	44%	45%	89%

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Ipsos MORI Study 2009 – Great Britain ONLY



Base: 1,981 respondents aged 16+ across Great Britain – Ipsos - MORI
October 5th, 2008

	Tell the truth %	Not tell the truth %	Don't know %
Doctors	90	6	4
Teachers	86	9	5
Professors	78	10	12
Judges	78	14	8
Clergy / priests	73	17	10
Scientists	65	22	13
TV news readers	61	27	12
The Police	59	31	10
The ordinary man / woman in the street	52	33	15
Pollsters	45	32	22
Civil servants	44	43	13
Trade union officials	38	45	17
Business leaders	26	62	11
Gov ministers	22	71	8
Journalists	18	75	7
Politicians in general	18	76	6

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Readers Digest Trusted Brands Survey

Readers Digest -- Trust in Institutions 2010							SEE SHEET 2					
Category	Average all countries	France	Germany	Sweden	Russia	Austria	Belgium	Czech Republic	Finland	Poland	Switzerland	Croatia
Respondents Agreeing - a great deal/quite a lot												
Marriage	67%	57%	72%	75%	56%	74%	49%	77%	76%	75%	66%	81%
TV and radio	51%	33%	60%	85%	17%	58%	52%	47%	71%	34%	69%	58%
Environmentalists	49%	43%	61%	44%	44%	65%	53%	31%	25%	48%	61%	53%
Internet	48%	34%	24%	49%	36%	31%	55%	69%	52%	58%	38%	54%
Press	40%	29%	48%	59%	12%	47%	41%	38%	57%	33%	48%	47%
Banks	40%	19%	21%	60%	32%	41%	33%	48%	78%	51%	43%	39%
Church	38%	27%	34%	52%	50%	36%	13%	15%	61%	35%	34%	47%
Legal system	37%	36%	46%	63%	16%	61%	31%	14%	76%	31%	61%	14%
International companies	35%	30%	25%	40%	24%	41%	40%	29%	38%	20%	43%	38%
Civil servants	27%	37%	30%	36%	2%	38%	26%	25%	39%	23%	37%	22%
Government	23%	19%	15%	53%	29%	20%	9%	14%	38%	20%	49%	7%
Advertising	14%	10%	6%	11%	3%	15%	14%	15%	13%	14%	18%	20%
Respondents agreeing - not very much/not at all												
Marriage	30%	42%	24%	23%	40%	25%	49%	22%	24%	23%	29%	17%
TV and radio	46%	66%	38%	14%	80%	41%	47%	52%	29%	63%	28%	40%
Environmentalists	47%	56%	34%	50%	53%	29%	45%	67%	75%	49%	31%	44%
Internet	47%	64%	69%	45%	61%	62%	43%	29%	48%	39%	53%	43%
Press	57%	70%	50%	40%	84%	52%	58%	61%	43%	65%	48%	51%
Banks	56%	79%	73%	35%	64%	53%	66%	51%	22%	47%	49%	58%
Church	59%	71%	63%	46%	47%	62%	86%	84%	39%	63%	61%	51%
Legal system	58%	62%	48%	31%	81%	32%	68%	84%	23%	67%	31%	83%
International companies	60%	68%	67%	54%	72%	53%	58%	69%	62%	77%	48%	59%
Civil servants	67%	62%	64%	58%	95%	55%	72%	73%	60%	74%	54%	75%
Government	74%	80%	82%	46%	68%	79%	89%	85%	61%	78%	47%	91%
Advertising	81%	88%	88%	84%	94%	79%	85%	83%	87%	83%	73%	77%

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Country	Trust in Government		Trust in Banks		Trust in International Companies		Trust in the Press	
	Respondents agreeing - a great deal/quite a lot	Respondents agreeing - not very much/not at all	Respondents agreeing - a great deal/quite a lot	Respondents agreeing - not very much/not at all	Respondents agreeing - a great deal/quite a lot	Respondents agreeing - not very much/not at all	Respondents agreeing - a great deal/quite a lot	Respondents agreeing - not very much/not at all
Average all countries	23%	74%	40%	56%	35%	60%	40%	57%
Austria	20%	79%	41%	53%	41%	53%	47%	52%
Belgium	9%	89%	33%	66%	40%	58%	41%	58%
Croatia	7%	91%	39%	58%	38%	59%	47%	51%
Czech Republic	14%	85%	48%	51%	29%	69%	38%	61%
Finland	38%	61%	78%	22%	38%	62%	57%	43%
France	19%	80%	19%	79%	30%	68%	29%	70%
Germany	15%	82%	21%	73%	25%	67%	48%	50%
Hungary	33%	66%	25%	73%	33%	65%	30%	69%
Netherlands	32%	67%	38%	61%	39%	60%	36%	63%
Poland	20%	78%	51%	47%	20%	77%	33%	65%
Portugal	11%	62%	31%	42%	35%	37%	38%	35%
Romania	6%	93%	29%	67%	46%	48%	32%	65%
Russia	29%	68%	32%	64%	24%	72%	12%	84%
Slovenia	14%	84%	45%	50%	38%	56%	48%	50%
Sweden	53%	46%	60%	35%	40%	54%	59%	40%
Switzerland	49%	47%	43%	49%	43%	48%	48%	48%

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Pew Research Foundation April 2010

How much of the time do you trust the government in Washington?

Trust	Just about always / most of the time
Distrust	Some of the time / never
Trust by Party	Just about always / most of the time

Compare trust in government to:

Satisfaction	Satisfied with the state of the nation
Confidence	Consumer sentiment
Unemployment	Monthly Rate
Change in House	Number of House seats changing parties
Incumbent Losses	Number of House incumbents defeated

