ONE

The Decision to Trust

Trust is central to human existence. Like all social animals, human beings have an instinctive need to cooperate and rely on each other in order to satisfy their most basic emotional, psychological, and material needs. Without trust, we are not only less happy as individuals but also less productive in groups. Research has linked the virtues and benefits of trust to economic prosperity, societal stability, and even human survival.[1] The powerful effect of trust is that it enables cooperative behavior without costly and cumbersome monitoring and contracting. In short, trust is a form of social capital that enhances performance between individuals, within and among groups, and in larger collectives (for example, organizations, institutions, and nations).

Yet even though the decision to trust is so important, most of us can provide only rudimentary explanations of why we choose to trust certain people, groups, and institutions and not others. Trust, like love and happiness, is difficult for people to explain in clear, rational terms. This often makes us very bad trustors (a person deciding to trust or distrust). It also can create problems for us in life. We extend trust with only a vague sense of our reasons for trusting, and we unknowingly create an incentive and a market for untrustworthy opportunists who rely on a steady supply of naïve trustors. In not understanding trust, we may also fail to grasp why someone might be wary of giving us his or her trust. Worst of all, we may sometimes act unintentionally in ways that erode others' trust in us.

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We make different kinds of trust errors. Sometimes we choose to trust people, groups, and organizations that do not warrant that trust. Other times, we choose not to trust even though trust is warranted, and we miss out on opportunities as a result. For example, studies have shown that many people underestimate the trustworthiness of others and that this induces these others not only to be less trusting but also less generous.[2] Emotions and gut feelings can often outweigh data. There are even people who err by adopting a default decision of distrust in order to protect themselves from the pain of betrayal and disappointment. They might be happier on the whole if they chose to trust more often and to endure some betrayal as a necessary price in the pursuit of happiness.[3]

By trusting, you make yourself vulnerable to loss. Questions of whom to trust, how far to extend that trust, and how to avoid betrayal of trust extend into all our important relationships, including those with our employers, the government, and other large institutions. The choices we make in answering these questions can have profound effects on the course of our lives, which is why so many classics of world literature are suffused with themes of trust and betrayal. From *The Odyssey* to *Hamlet,* all the way through to such modern classics as *The Brothers Karamazov* and *Catcher in the Rye,* the question of how much one can trust—whether it be a loved one, authority figure, or government—has plagued literature's heroes.

Distrust can be healthy and advisable, but when present in the extreme and in the wrong situations, it corrodes the cooperative instinct. It turns collaborative exchange into a slow and anxious mess of protective maneuvers.[4] We know from research that our beliefs and judgments about trustworthiness affect our intentions and behaviors toward others in fundamental ways. Consider the consequences that research shows are related to high or low trust (illustrated in Figure 1.1).[5]

Without trust, people are more anxious and less happy; leaders without trust have slower and more cautious followers; organizations without trust struggle to be productive; governments without trust lose essential civic cooperation; and societies without trust deteriorate. In short, if

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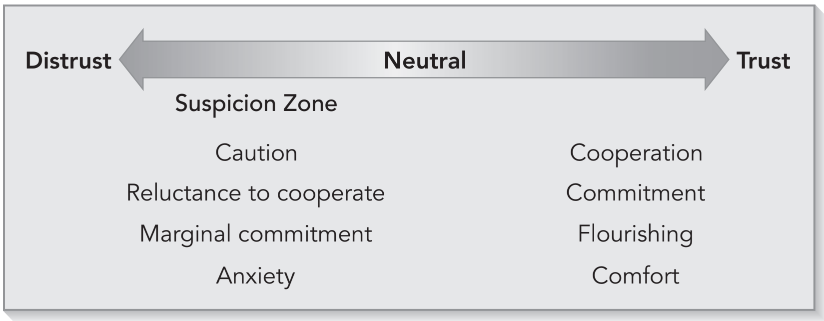

Figure 1.1 The Distrust-Trust Continuum

we cannot generate adequate and reasonable perceptions of trust, through agents acting in a trustworthy manner, our lives will be more problematic and less prosperous.

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A DEEPER LOOK INTO THE DECISION TO TRUST

Researchers have studied trust as a decision process and identified the inputs we typically consider in making this decision.[6] We will consider the inputs to the trust decision in the next chapter, but for now we will concentrate on the trust decision process. As Figure 1.2 shows, every decision to trust is made within a situational context. You decide to trust person B in matter X, and this will be influenced by the situational factors represented by C. For example, you may trust your spouse with home repair (matter X), but not with your home finances. You would never trust a total stranger with your expensive digital camera—unless the stranger is standing a few feet away and you've asked him to snap a vacation picture of you and your companion at the Grand Canyon (situation C).

The decision to trust presents itself when both uncertainty and vulnerability are at hand. When things are totally predictable, the question of trust does not arise. But when you hand that stranger your camera at the Grand Canyon, you can't be absolutely certain that he

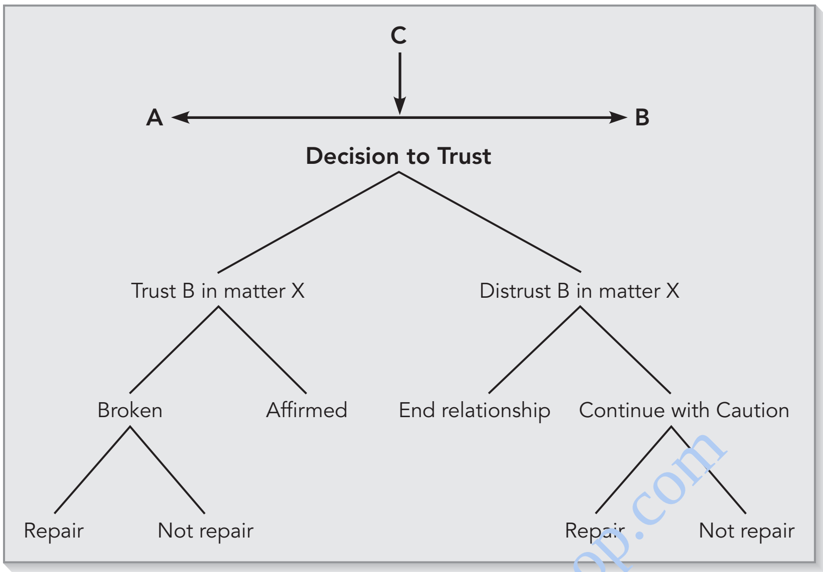

Figure 1.2 The Decision to Trust

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won't either drop it or run off with it. Your decision to trust—your confident reliance that he will return the camera to you unharmed—is partly based on your choice to accept some uncertainty in the situation. But even in an uncertain situation, if you don't feel any true vulnerability, then trust is really not an issue. If you were to lend a cheap pen to that same stranger at the Grand Canyon and you have three others in your pocket, you haven't made a substantive decision to trust because whether or not you get your pen back is not of any real concern to you. Trust is most helpful when we are faced with risk and uncertainty and the possibility of injury. In important matters, when we decide to distrust, a relationship usually ends or continues under duress unless it can be repaired.

Consider the following scenarios that involve the decision to trust:

- You and your spouse are about to purchase a house. You are torn about how much to rely on your real estate agent, who has told you that the price is fair, the schools are great, and the neighbors are wonderful. It is the biggest decision you and your spouse have made since marrying.

- Your company has just announced that it is merging with another firm. Your boss tells you that your position is safe. How much of your energy do you put into making the merger work versus actively seeking other job opportunities?
- You have just taken over as CEO of a firm, and you realize that your direct reports and the functions they lead do not trust each other or share information, and your customers and profits are suffering. You are leading a collection of groups that are not integrated and not performing, and you know that you will lose your job if you cannot repair this sinking ship.

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You may ruminate more in some scenarios, and you may have more options in certain cases, but in each situation you will come to some judgment about how comfortable you are relying on a trustee (a person, group, organization, or institution to whom something is entrusted). Research shows that this trust judgment is related to your disposition to trust and your perceptions of the trustworthiness of the trustee.[7] You assess attributes of trustworthiness and the situation in making a trust judgment. The judgment you make influences your behavior toward the trustee—for example, whether you share information or the degree to which you take protective measures with this trustee in this situation.

Interdependence is an inescapable fact of life, and we cannot predict the future with certainty, but we can understand the set of factors that go into making a good trust decision. Trust errors often occur when we fail to consider one or more of these key trust factors. If you familiarize yourself with the mental calculations involved in the decision to trust, if you understand the underlying causes of trust, it stands to reason that you will make wiser, better-informed decisions. Furthermore, if you are able to predict the conditions under which people will trust, then you should be able to manage trust and earn the trust of others.

THE STATE OF TRUST OVER TIME

One way to understand the trust decision is to examine it over time. Fortunately, social scientists have been measuring the degree to which we trust or distrust for a long time. The findings show a disturbing trend of declining trust in major social institutions, including government, in nearly all advanced industrialized democracies.[8] In the United States, trust has been in gradual decline since the early 1970s, following a dramatic drop in the 1960s. In the 1960s, surveys indicated that about 59 percent of people agreed with the statement "Most people can be trusted." Figure 1.3 presents this generalized trust data from the General Social Survey beginning in 1987, when they began to be collected regularly. The data represent face-to-face in-person interviews in the United States with a randomly selected sample of adults.[9] The survey results indicate a steady decline, with the most recent scores showing that only about one-third of respondents agree that most people can be trusted.

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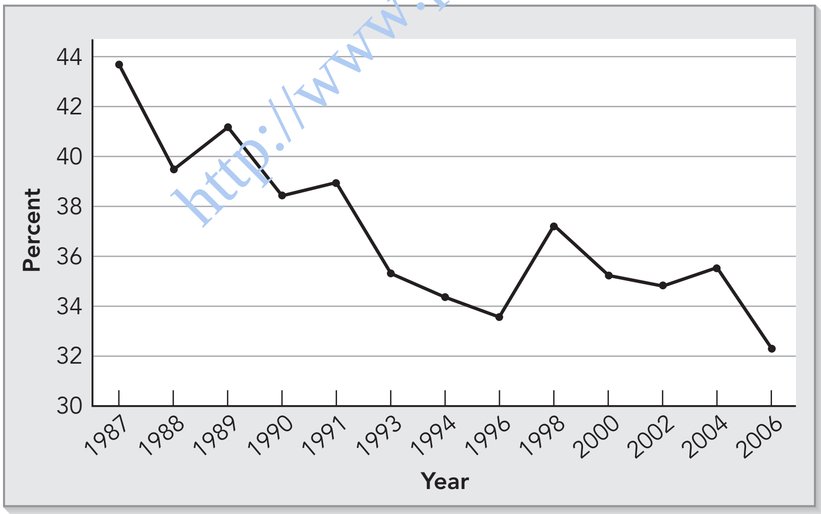

Figure 1.3 Percentage of People Who Say That "Most People Can Be Trusted"

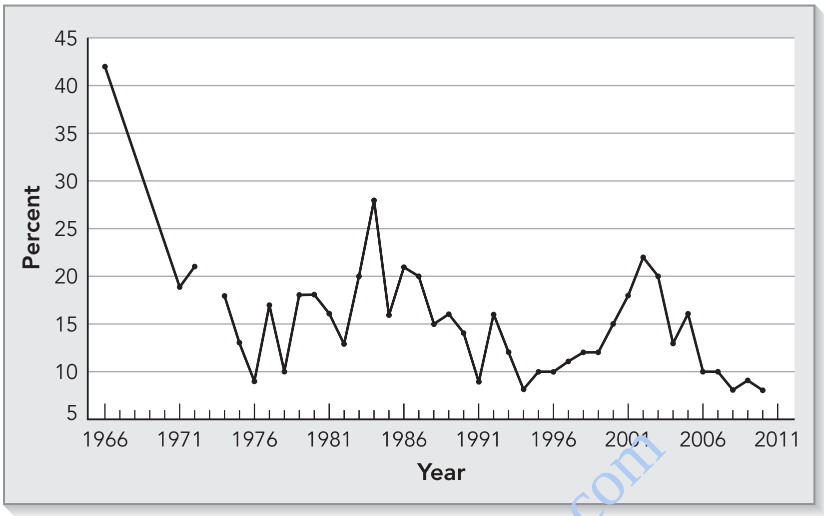

Figure 1.4 Percentage of People Who Have a Great Deal of Confidence in Congress

Because trust is often defined as "confident reliance," many surveys measure confidence rather than asking directly about trust. As illustrated in Figure 1.4, Harris Poll data on confidence in the U.S. Congress shows the bleakest trend. Except for 1985, when the Congress protected Social Security from cuts under Reagan, and the extended period of economic growth leading up to the dot-com crash in 2000, the public's confidence in Congress has been in steady decline. In the most recent data, less than 10 percent of people said they had a great deal of confidence in Congress.

Given the low generalized trust scores and low scores on trust in Congress, we would hope that people can at least trust where they get their information, the press. Unfortunately, according to the Harris Poll, the long-term U.S. trend for confidence in the press also shows declines (see Figure 1.5).[10] Trust has declined since 1966, with the exception of two periods when there was a positive bounce: coverage of Watergate in the mid-1970s and of the Iran hostage crisis in the late 1970s into 1980. In 2009, a Pew Research Center survey that asked directly about bias and accuracy showed rising perceptions that the media is biased in its reporting.[11]

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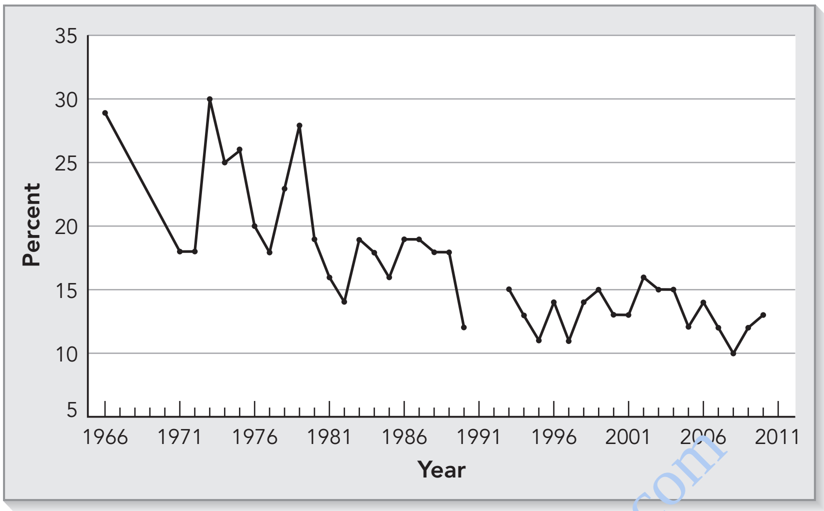

Figure 1.5 Percentage of People Who Have a Great Deal of Confidence in the Press

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Data on trust in business are even bleaker. The Harris Poll data on confidence in business in the United States is shown in Figure 1.6. Starting at a high of 55 percent in 1966, scores since 2008 are trending at or below 15 percent of people who have a great deal of confidence in business. The only periods when scores increased were from 1992 to 2000, when there were eight years of above-average GDP growth, and during the mania leading up to the dot-com bust, 2000 to 2002. The 2009 Edelman Trust Barometer, which is a global measure, showed that trust in business declined across the globe after the financial crisis. Across twenty countries, 62 percent of respondents trusted business less than the year before.[12] In another Edelman survey of more than four thousand people, only 30 to 40 percent of respondents in the United States, the United Kingdom, France, and Germany felt that business could be "trusted to do what is right."[13]

A deeper look at the loss of trust in business during the global financial crisis reveals poor decision making and a failure of trustworthiness across the individual, organizational, and governmental levels, with

Figure 1.6 Percentage of People Who Have a Great Deal of Confidence in Business

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disastrous effects. The Financial Trust Index showed that between September and December of 2008, 52 percent of Americans lost trust in the banks. Similarly, 65 percent lost trust in the stock market.[14] Although many articles and books have been written about the global financial crisis, none have properly analyzed this betrayal from a trust perspective. Preceding this massive loss of trust was a systematic erosion of the foundational elements of trustworthiness.

Financial institutions were changing their business models to grow, but they were not increasing their capability to systematically understand and manage these new products (derivatives, credit default swaps, mortgage-backed securities).[15] There was also a fundamental misalignment of interests and incentives in the system. Politicians leading financial regulation in Congress (for example, Barney Frank and Chris Dodd) were receiving millions of dollars from the industry they were regulating. The government was not only reducing regulation and enforcement but also contributing to inflation in home prices by keeping interest rates artificially low and forcing Fannie Mae and Freddie Mac to buy mortgages and take the default risk from banks whose mortgage brokers received bigger commissions to sell mortgages with a higher likelihood of default.

Adding to this list of perverse incentives, the investment bank CEOs were receiving large bonuses that were based on questionable earnings growth and at odds with risk-adjusted long-term shareholder value. These incentives also turned out to be at odds with Main Street's desire for a healthy financial system to achieve some stability in retirement savings and employment. There were also major lapses in ethics and integrity as CEOs assured the markets that their firms were in great shape—just prior to their failures. The failure of proper disclosure and transparent communication between investment banks and their own clients was noted in a number of fines levied by the Securities Exchange Commission (SEC). Finally, there was a major failure of boards of directors to hold management accountable; and in firm after firm, co-optation replaced rigorous stewardship of shareholders' and citizens' best interests. The story of the global financial crisis that is just beginning to be written is a story of trust and eventual betrayal in a system that was inherently untrustworthy. It is a story of poor trust decision making that led to trillions of dollars of wealth destruction and immensely painful job losses on a global scale.

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MAKING SENSE OF THE DECLINE IN TRUST

How did we reach this poor state of affairs concerning trust in business, government, and the media? Why is trust such an issue today? Was it a problem for previous generations? Although different types of trust (of government, leaders, Congress, and people in general) may have some specific reasons for decline, larger themes and some answers for the decline of trust emerge from research.

Change, Complexity, and Inflated Expectations of Trustees

Some of the failures noted earlier on the part of business and government leaders were due to misguided decisions made in the face of great change and complexity. When matters grow beyond the capability of the trustee, distrust is a logical posture. In his book *Trust,* Russell Hardin makes the point that trust in government began to decline with the advent of Lyndon Johnson's Great Society program and the expanding scope of government, which tried to solve issues concerning poverty and crime, with generally poor results.[16] Surveys of trust in government often cite waste and inefficiency (incompetence) as one of the major reasons that citizens lack confidence and trust in government.[17] There is also evidence that trust in business leaders has declined because employees do not feel confidence that their leaders know how to handle the challenges confronting them. A survey by the European Leadership Program of one thousand midlevel executives in U.K. companies showed that just 53 percent felt confident that their leaders could manage their companies through challenges.[18] In this sense, the decline in trust is simply good judgment in the face of more challenging times and less dependable trustees.

Compounding the limited ability to deal with change and complexity is the problem of inflated expectations. Expectations have increased along with a sense of entitlement, so trustors are more frequently disappointed. Often our reaction to disappointment is to decry the trustee without asking ourselves whether our expectations were fair or reasonable. It is more comforting to blame loss or failure on a flawed trustee (scapegoat) because it offers us the hope that success is achievable, even in dealing with the most challenging problems, if only we have the right president or CEO. It is more troubling to admit that sometimes situations are beyond our control and that there is no all-knowing authority figure who can change this. There is evidence that these inflated expectations explain some of the loss of trust in government.[19]

An excessive entitlement mentality can lead to a feeling of betrayal even when the trustee has been trustworthy by all objective assessments. This is not meant to take leaders off the hook for acting in good faith, but merely to recognize that it is hard to maintain high trust when we project unreasonable expectations onto trustees.

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Radical Change in Interdependence and Social Networks

Simply put, the world used to be a much smaller place for most of us. In a small village, people depended on direct face-to-face exchanges with people they knew. Violating norms of trust and of reciprocity would result in sure and quick punishment by the community. Today in our larger, more fragmented social networks, we are forced to depend on many more people and groups that we do not know well. This increases the chances that we will be betrayed and lose trust.[20] It also is harder to locate and penalize violations of trust. Many social networks comprise fragmented, shallow connections based on online interaction rather than personal relationships. This changed dynamic makes it harder to regulate distrust and presents more opportunities for betrayal.

Widening of Income Disparity, Prevalence of a Sense of Unfairness, and Decrease of Optimism

Studies have shown that lower levels of trust are found in nations with greater income disparities.[21] The explanation given for why low trust tends to be associated with more income disparity is that trust is connected with people's sense of optimism and hope for a better life, both of which suffer when there is great variance in wealth. When we feel hopeful that we can have a better life, we tend to be more trusting. In contrast, if we feel despair and that others have advantages that are not available to us (lack of fairness), we tend to be suspicious. Low trust tends to be the result when there are many "have nots" looking at the "haves." Some argue that redistributing wealth robs people of the chance to build self-esteem through hard work, and creates incentives for sloth and disincentives for entrepreneurship. Although this may be true in certain circumstances, these arguments do not change the empirical fact that trust goes hand in hand with higher levels of income equality. If a nation values a high level of societal trust as a goal, it is clear that fairness in the ability to earn income and some mechanism for avoiding excessive extremes in income distribution must exist.

The ability to increase one's standard of living is connected with a more general issue of generational optimism and pessimism. Each

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generation views its environment and adopts a mind-set that falls somewhere along a continuum of optimism and pessimism; this mind-set colors how trusting the people in that generation are likely to be. In an analysis of trust data, Uslaner found that optimistic people were 36 percent more likely to trust others than the most pessimistic people.[22] Increasing life spans, affluence, and technological progress have not made younger generations more optimistic. A world leadership survey by the Center for Creative Leadership indicates that only 30 percent of employees ages twenty-five to thirty-five trust the people they work with "a lot," versus 45 percent for employees ages thirty-six to sixty-five. The survey was conducted in January 2009 and surveyed 1,750 people, covering the Americas, Asia Pacific, Europe, Middle East, and Africa. The data suggest that across the world, younger generations are increasingly less trusting; this has major implications for retaining talent and building effective organizations.[23]

Decline in Civic Mindedness and Increase in Isolation

When we come together and prevail in a crisis, we feel better about human nature and our ability to count on those around us. Putnam and Uslaner makes a convincing arguments that the generation that came together to overcome the challenges of the Great Depression and World War II—food and material shortages, deaths of loved ones in combat, and the threat of an expansionist aggressor—embedded a belief in the power of a civic-minded community to prevail by looking out for each other. They refer to the people born from 1910 to 1940 as the "long civic generation." Generations since have all shown some decline in civic mindedness, the willingness to sacrifice for the common good and trust in others.[24] Other research suggests that the advent of television increased isolation and reduced community building, which led to a decline in trust.[25] The math is very simple. As of the twenty-first century, no one under the age of fifty can remember a time when a majority of the public trusted government, social institutions, and major corporations. Everyone ages sixty or younger has spent his or her entire working life in a world characterized by eroding trust and growing suspicion.

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Extreme Capitalism and an Age of Opportunism

It is clear that the global financial crisis and the opportunistic behavior of banks, ratings agencies, and mortgage brokers, as well as some boards of directors and senior managers, contributed to a near depression and an erosion of trust. In the United States, data from the Edelman Trust Barometer showed major declines in trust in business among the public during the 2008 to 2009 time period of the financial crisis.[26] But this trend is not a recent or isolated one. Increased competition and globalization have contributed to the evolution of a more economically driven and less social and humanistic model of capitalism.[27] Consider the difference between IBM as a blue-chip company in the 1960s, where employees could largely assume lifetime employment, versus the leaner and arguably more agile and meaner 2010 version, where jobs move to countries based on economics, and workforce reductions are made more regularly.[28] More competition, more stress, and less slack in the system increase risk and make trust more difficult.

Deutsch's research established that a competitive, winner-take-all orientation promotes suspicion, not trust.[29] Creating types of competition in specific areas of business and society can be associated with progress through innovation and creative destruction of poorly performing firms and non-value-adding industries.[30] The problem comes when capitalism becomes an unbridled race to profit without concern for ethics, morality, and the interests of all stakeholders in the social and economic system. Organization theories have contributed to this problem. For example, the transaction cost theory of organization starts with the assumption that people will act opportunistically with guile, which some have argued has induced this very behavior.[31] Shareholder maximization theories have elevated shareholders over other stakeholders and led to conflicts rather than to integration of interests.[32]

The general lack of integration of ethical, moral, and stakeholder theories into business models and organizations has contributed to what I refer to as extreme capitalism.[33] For example, we sometimes hear the expression "This is a business" or "I am running a business" to justify, on economic grounds, what we feel may be questionable from a moral

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or ethical perspective. Edward Freeman, one of the leading stakeholder theorists, referred to this as the "separatist principle," whereby we separate business from ethics, morality, and humanism. For this reason, as a means of restoring trust, Freeman and other scholars advocate new forms of governance and incentives to correct some dysfunctions of our current form of capitalism.[34] Capitalism has proven to be an incredible vehicle for the allocation of human and financial capital to increase prosperity, but, like all systems, it needs to be occasionally changed and reformed.[35]

Increased Negative Content and Tales of Betrayal in the Media

Survey data indicate that 72 percent of Americans get their impression of government from the media rather than from personal experience (18 percent) or friends and family (8 percent).[36] There is also evidence that after the 1950s, which is when trust scores began their long decline, the media transitioned from being a simple carrier of the politician's message to active critic of the politician.[37] Estimates suggest that negative accounts in TV, newspapers, and magazines increased from about 25 percent of stories to 60 percent during the 1970s and 1980s.[38] In modern elections in the United States, some of the most frequent government bashing in the media comes from politicians themselves using pejorative terms like "government is broken," "beltway bandit," and "Washington elite."

The vast increase in the volume of media also hurts trust in some ways. Contrast the Kennedy White House years with the Clinton era. For weeks if not months, the American public heard about President Clinton's betrayal with Monica Lewinski. Similarly with Richard Nixon and Watergate. Unfortunately, tales of the noble politician seem rare and are drowned out by the stories of investigations and indictments. Senator Bill Bradley once said of media coverage, "If it bleeds it leads; if it thinks it stinks."[39] Beyond the news, nearly all of the reality TV shows and many of the talk shows supply a steady diet of stories of betrayal, with what seems like a preference for the most uncivil and outrageous.

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THE IMPLICATIONS OF THE DECLINE IN TRUST

But what do a decline of trust and perceptions of trustworthiness mean at a more granular level? At the individual level, it means that people feel that they must protect their interests because they believe others will not. At the organizational level, it means that one department is reluctant to cooperate or share with another, or is resistant to doing so. At the system level, an atmosphere of distrust ensures that more and more energy and attention are devoted to cautious self-protection rather than to productive exchange, whether that be in an economic or a political system. The result can be disorder, chaos, and, in the case of the 2008 financial crisis, $4.1 trillion of wealth destruction on a global scale.[40]

The defining characteristics of successful institutions, societies, and organizations are interdependence, cooperation, and coordination, all of which are enabled by trust. Followers depend on leaders, leaders depend on followers, the marketing group depends on manufacturing, and so on. Group life requires the development of "dependable" working relationships with others who affect outcomes and our futures. Without trust, we move from dependable working relationship to stressful adventure as we try to make things work with those on whom we must rely.

If there is any good news at all to be found here, it's that a worldwide scarcity of trust means that trust has never been so precious and so valuable. In an atmosphere of general distrust, those leaders with a good grasp of trust—who know how to judge it, build it, and rely on it—have an enormous edge over their competitors. Those who can succeed in the task of building high-trust relationships and high-trust organizations are more likely to be rewarded, because research shows that people instinctively gravitate toward individuals and organizations who are trustworthy and who manage trust well.[41]

Research in economics suggests that on a global scale, investment as a share of GDP increases 1 percent for every 7 percent increase in trust, and the average economic growth rate increases 1 percent for every 15 percent increase in a country's level of trust.[42] Research in organizations

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shows that trust improves the internal effectiveness of groups and organizations; there is lower turnover, higher commitment, and better mutual adjustment. There is also evidence that trust improves external performance through increased goal attainment, better completion time, more positive impact on stakeholders, and higher return on investment.[43] In high-trust collectives, people and groups are invited to move beyond their narrow self-interests and commit to common goals. They aren't excessively distracted by the need to protect themselves from others' self-promoting agendas. It is for this reason that trust is the primary measure that *Fortune* magazine uses to select its annual list Fortune 100 Best Companies to Work For. In these companies, employees acknowledge that change brings inevitable uncertainties, but that they nonetheless have a sense of comfort that they are acting in concert with their coworkers, pulling together toward a common goal.

Too few environments match this description of high-trust organizations today. To move from a low-trust to a high-trust environment requires effort, but above all, as we'll see in the next chapter, it takes a more thorough understanding of what we really mean when we use the word "trust."

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