# TRUST;

## BEFORE RECONSTRUCTION COMES DECONSTRUCTION


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In this paper we discuss consumers' trust of organisations.

Trust is situational. Organisations must look beyond the surface to understand the specific drivers of consumer Trust. From an acquisition and retention perspective, the genesis of measuring the damage and rebuilding trust lies firstly with analytics. That is, an organisation must deconstruct Trust by establishing the drivers that relate specifically to who they want to trust them and for what purpose. Lastly, claims designed to build trust need to be tested for plausibility and coherence. Not doing so risks ignoring the weight of a critically important trust cue which influences consumers' decision making.

# The Tenets of Trust

It's probably fair to describe 'trust' as an inherently optimistic expectation. 'Hope' is too, but as concepts, they're diametrically opposed. Think of trust as a pane of glass and hope a rubber ball. Trust is based on past behaviours and reputation; it is centred on the belief in the reliability, confidence, competence and integrity of someone. Run afoul of these tenets, and trust cracks or shatters. Whereas, hope is a desire and expectation for an outcome to occur. If our hopes don't transpire, we experience various degrees of disappointment, but our sense of hope is not dashed forever; it tends to bounce back resiliently. Trust must be rebuilt.

Trust must be handled carefully. Respectfully. With reverence. Trust is both an emotional and rational act. Emotionally, it is where you expose your vulnerabilities to people, but while believing they will not take advantage of your openness. Rationally, it is where you have assessed the probabilities of gain and loss, calculated expected utility based on the actions of the past, and concluded that the person or organisation will behave as expected.

We are naturally predisposed to trust – it's in our genes and our childhood learning – and by and large it's a survival mechanism that has served our species well. Trust has a long shelf life. It can be stored. Indeed, trust is a repository of preparedness to act during vulnerability and the presence of trust leads to a willingness to be vulnerable. This is the notion that mutually-insured relationships are maintained over the long term by reciprocal acts of vulnerability and reliance. Emotions associated with trust include companionship, friendship, love, agreement, relaxation and comfort.

Trust is therefore a dynamic, interpersonal link between people and organisations. Depending on a plethora of attributes, in the immediate term, trust can be an antecedent to buyer behaviour, and in the longer term, trust can simply be an attitudinal gauge for whether or not an organisation or an individual is trustworthy. It is vital to build stored trust, and to appreciate that these banked reserves represent a present value. Consider home insurance: most customers may never experience a claimable event and will never be overtly vulnerable. But a claimant will draw heavily on that stored trust when their house burns down. So how much trust is enough trust and who needs it?

# A Matter of Degree

Trust is related to all forms of organisational citizenship behaviours: altruism, civic virtue, conscientiousness, courtesy, and corporate 'sportsmanship'. Inside the organisation, trust assumes importance because it is the basis of cooperation. It lubricates the internal machinery of an organisation, making it possible for employees to do more, increasing efficiency and decreasing cost.

Outside the organisation, trust is at the nexus of marketing and public affairs. Trust needs to be fostered and managed for a broad church of stakeholders such as shareholders and regulators. For marketing, trust is part of the brand promise, and for some categories and buyer situations, heavily factors into consumer choice.

The importance of trust increases with the consumer's vulnerability which, amongst other things, is related to the asymmetry of information. The buyer knows less than the seller and therefore, is forced to trust the seller. Buyers use cues for assessing trustworthiness. The greater the naivety of the buyer, the more rudimentary are the cues. For example, a naive cue is that an enterprise is large and therefore more trustworthy. As the buyer learns more, the naive cues are replaced by more educated ones such as actual performance. Henceforth, we refer to these cues as 'drivers' of Trust.

The notion of multiple drivers of Trust leads us to conclude that trust is divisible. An organisation can be stigmatised at a high level ("Big banks can't be trusted, they're all out to rip customers off") but fully trusted to provide a specific service ("My home loan is with ANZ, they are as safe as a house").

Trust should be measured and treated as a quantitative item. Through multivariate analysis of primary or survey data, Trust should be empirically deconstructed into the consumer drivers used to assess the trustworthiness of an organisation. Modelling (output illustrated in Figure One) enables a causal model of choice to be constructed and the relative importance of Trust in consumer choice to be established. The two exhibits below show that in the three markets where Trust is most important, Trust performance is lowest (telecommunications, superannuation and banking).

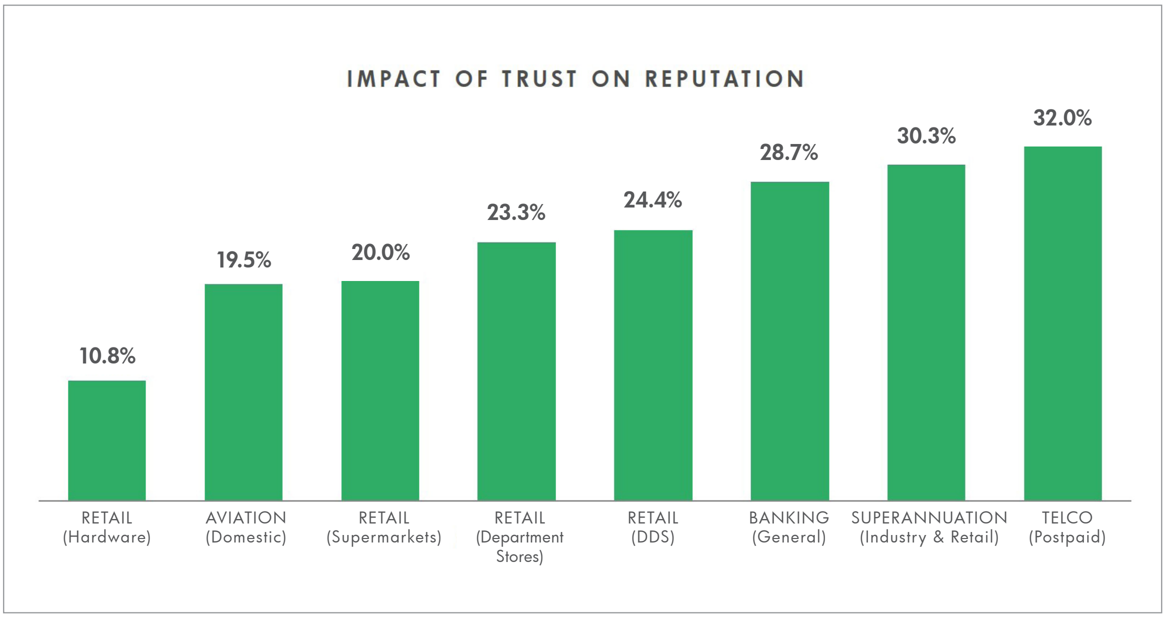


Figure One: Reputation is an aggregated driver of choice. Within Reputation, Trust is often the largest single driver. As determined through multivariate analysis, this exhibit captures the relative importance of Trust in Reputation. Source: Forethought studies.

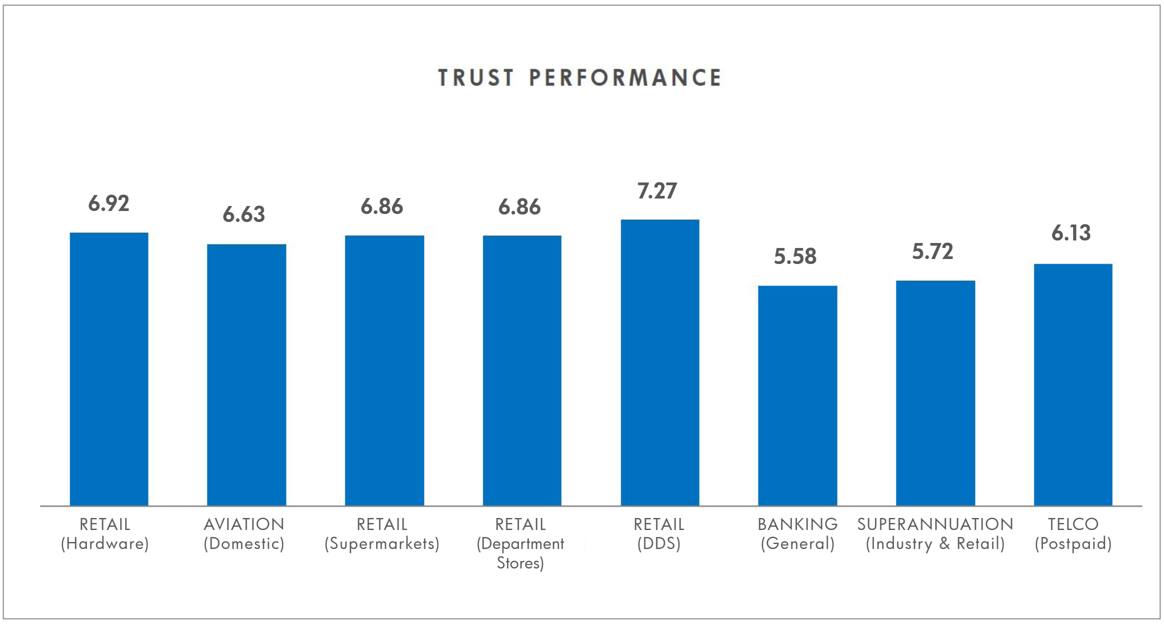


Figure Two: Using a zero to ten-point scale, organisations are rated on their performance on Trust. Source: Forethought studies.

Trust is a collective expression of qualities. The literature offers several models seeking to define 'pillars of trust.' Each pillar may be further empirically deconstructed into the components or drivers used by consumers to signify Trust. What constitutes the relative importance of any single component of Trust varies by a plethora of variables including the service/product category, brand's past behaviour, demographics, psychographics and buying situation.

In the wake of the recent disturbing and pervasive corporate abuses and scandals, some organisations have emerged unscathed with seemingly little or no impact on company value. Despite how attached we may be to the notion of trust, it's worth questioning how much it matters.

# So, Does It Even Matter?


Figure Three: CBA share price from the CEO's "retirement" to the quarterly earnings announcement. Source: AFR November 11, 2017.

Our guess is that in the business press this year, more key strokes and column centimetres have been devoted to trust than any other issue. Most kerfuffle has centred on the Commonwealth Bank of Australia's (CBA) alleged mass breach of anti-money laundering laws.

Just to recap, on August 11, 2017 The Australian Securities and Investments Commission confirms it will investigate the CBA for allegedly breaching anti-money laundering and terrorism funding laws.

Amid the scandal, on August 14, 2017 the CBA announces that its chief executive Ian Narev will retire by the end of the current financial year. Then, on September 30, 2017 CBA announces that Trust and Reputation will be incorporated into incentive models accounting for 25 percent of long-term variable remuneration for senior executives. On October 6, 2017 Ian Narev tells shareholders he is "sorry" for letting them down.

Perhaps justifiably, questions are posed such as 'Has CBA permanently lost its halo?' (Australian Financial Review (AFR) October 8, 2017).

And yet, only weeks later, Chanticleer (AFR, November 9, 2017) reports record CBA profits and poses the question 'Why is a company engulfed in a crisis caused by multiple failures of operational risk management able to consistently deliver higher returns than its peers?' Do we conclude from this that trust in our most important financial institutions doesn't matter – that is it akin to school-yard popularity: nice to have, but accounting for very little in the long run?

The share price movement presented above chronicles the financial market's answer to the question, does trust matter? According to the financial markets, alleged breaches of trust make for very poor reading which effect daily sentiment, however, even in the short-run, trust does not seem to matter.

# You Don't Seem Convinced

*Since 1994, Trust has been a driver in every financial services choice model produced by Forethought.*

In Australia, superannuation is made up of retail funds (mainly owned by banks such as CBA), industry funds and self-managed super funds. For decades in this category, Forethought has produced models that predict changes in market share (validated against the Federal regulator's data with a lag of three months and correlations of ~.8). These models are made up of rational and more recently, emotional drivers. Since 1994, Trust has been a driver in every financial services choice model produced by Forethought. Indeed, in financial services, Forethought can categorically state that Trust is the single most important reputational driver of consumers' choice.

Industry super funds statistically significantly outperform the retail funds on Trust. During the period 2004-2016, retail funds have contracted in market share from 43 percent to 29 percent with industry funds being the major benefactors. Of course, there have been other factors such as net-benefits, however, a deteriorating reputation has a definite consequence at the product and service choice level (and at any rate, poor trust and strong returns is not a combination that works in financial services). In the fullness of time this is reflected in financial markets valuation of the stock.

Examples of the consequences of losing consumers' trust are plentiful. In 2016 Volkswagen AG's emissions scandal resulted in a sharp contraction of sales of its VW brand. Sales plunged 9 percent in Australia, nearly 8 percent in the USA, and VW sales were banned in South Korea.

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Once trust is lost, the effects can range from fleeting to enduring. In China in 2008 the Sanlu Group (and others) adulterated its milk powder with a toxic compound called melamine. Six infants died and almost 300,000 became ill from consuming the contaminated milk powder. Despite government testing and reassurances, three years later 70 percent of Beijing residents remained reluctant to buy domestically produced infant formula.

The short answer to the question, 'does trust matter?' is that it depends. In all cases, the driver of Trust differs by who an organisation wants to trust it, and then, for what purpose – service/product category and business outcome. Trust is less important in 'commodity' or low value / high frequency purchases when a customer can simply switch brands next time, with no damage done.

Discount airline, Jetstar has different drivers of Trust in Australia and Japan. Plaintiff lawyers, Maurice Blackburn has different drivers of Trust in Victoria and Queensland. There is no universal meaning beneath the collective expression of trust.

# Trust Is Not The Primary Outcome

Deconstructing Trust is an initial step but, is it the first step? As an organisation, the first step is to decide who you want to trust you and then, for what purpose. Those decisions fundamentally matter as it changes the importance of Trust, the drivers of Trust and the relative performance of Trust. Staying with financial services, banks want customers and prospective customers to trust them. The purpose: retention, acquisition and cross-sell. For those business goals, Trust matters but in each case the drivers of Trust can and do differ. The drivers of Trust even change by demographics. For example, in the case of customer acquisition in retail funds management, a driver of Trust for millennials is ethical investments. Through modelling, Australian's largest industry fund, AustralianSuper has found that ethical investments is not a driver of Trust for baby boomers (despite what those "socially responsible" participants might say in focus groups).

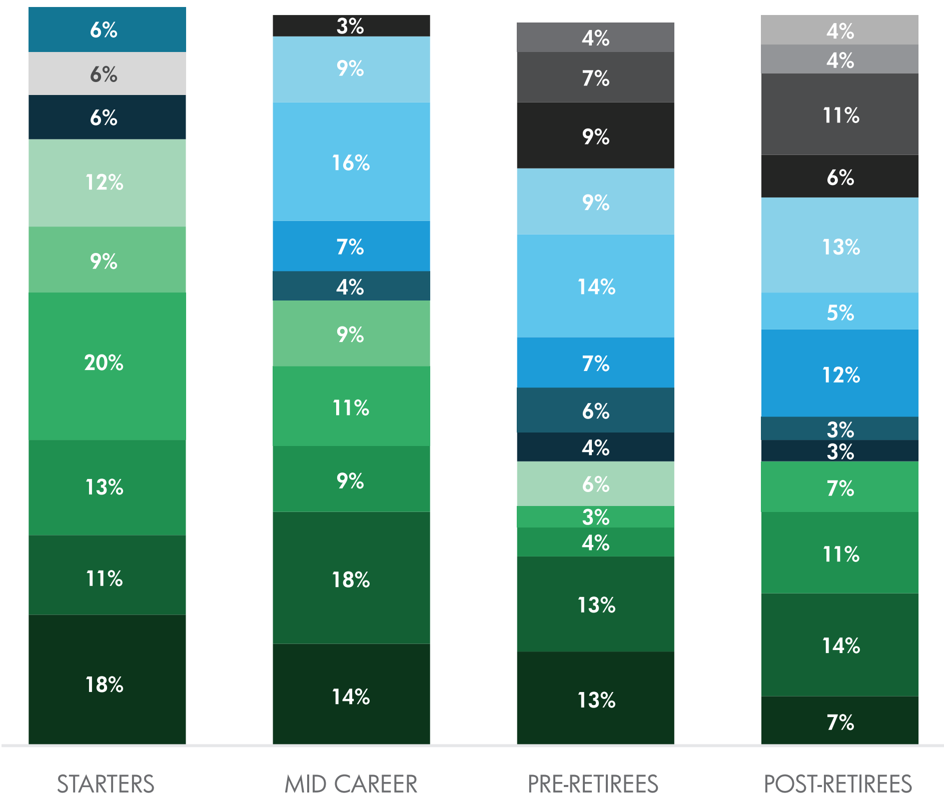


Figure Four: Derived from modelling, the drivers of Trust change over an investor's lifetime. The actual drivers are not listed however, NB the variability as individuals age. Source: AustralianSuper 2017.

Building trust depends on the situation. And yet, we can confidently predict that for all but a few 'learning organisations' that they will not go about understanding the specific drivers of consumer Trust for their situation. For them, saying that they care about Trust is analogous to saying that they care about motherhood and apple pie. For those organisations, there is the almost certain likelihood that Trust will become an end unto itself.

That is, the futile pursuit to build Trust without a specific purpose or knowledge of its situational constituents.

Having identified target and purpose, the next step is the trickiest: narrowly identifying the drivers or constituents of Trust. This is the precinct of data analytics. Identifying the drivers of Trust involves hypothesising what are the constituent drivers, framing of the survey and the knowledge and the expertise of the analysts. Big data analytics does not solve this challenge.

# Here's The Tricky Bit: Define, Build & Affirm Trust

A precursor to building Trust is to identify and then quantify the relative importance of the drivers of Trust. Not doing so and simply measuring the collective expression of Trust risks ignoring the weight of a critically important Trust driver and the state of that driver in influencing consumers' decision making.

In recent financial services work, Forethought has applied a model of Trust based on three pillars: Character, Capability and Benevolence, with a hypothesised list of drivers beneath the pillars, (Figure Five)

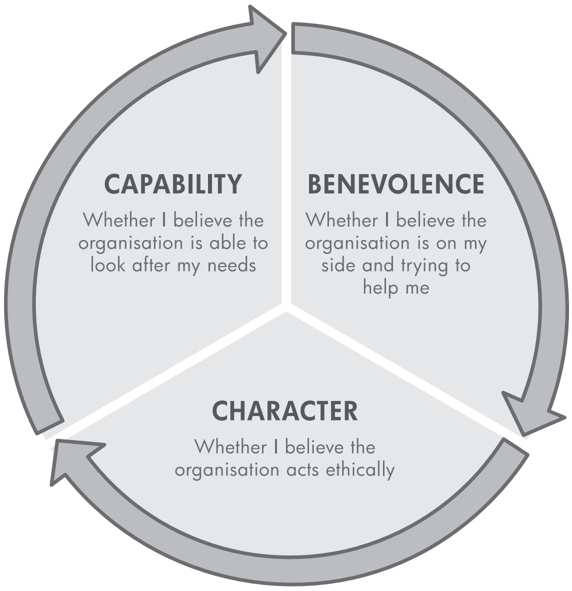


Figure Five: The hypothesised pillars of trust in the financial services sector – Character, Capability and Benevolence.
Source: Mayer, Davis & Schoorman 1995

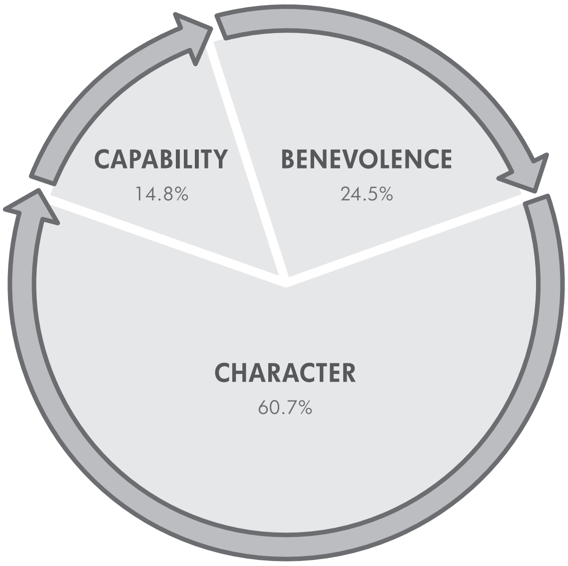


Figure Six: Modelled pillars of Trust for Banking sector.
Source: Forethought studies.

Continuing the CBA example, proceedings against CBA for alleged non-compliance of money laundering might undermine the Capability and Character pillars of Trust. The defence of the CEO to say that the non-compliance was a "mistake" is to tradeoff Capability for Character. That is, we lacked competence but not ethics.

In response to the barrage of market criticism largely from the financial press, the CBA removed fees from inter-bank card transfers and changed the key performance metrics of front line staff. Removing fees and changing KPIs from 'sales to service' sets out to address Benevolence but does not speak to the Capability or Character pillars. In that context, such initiatives are unlikely to address the loss of trust. From a measurement perspective, it would appear CBA has not deconstructed Trust before attempting to reconstruct it. Accurate diagnosis of a condition is a necessary step for prescribing the right treatment.

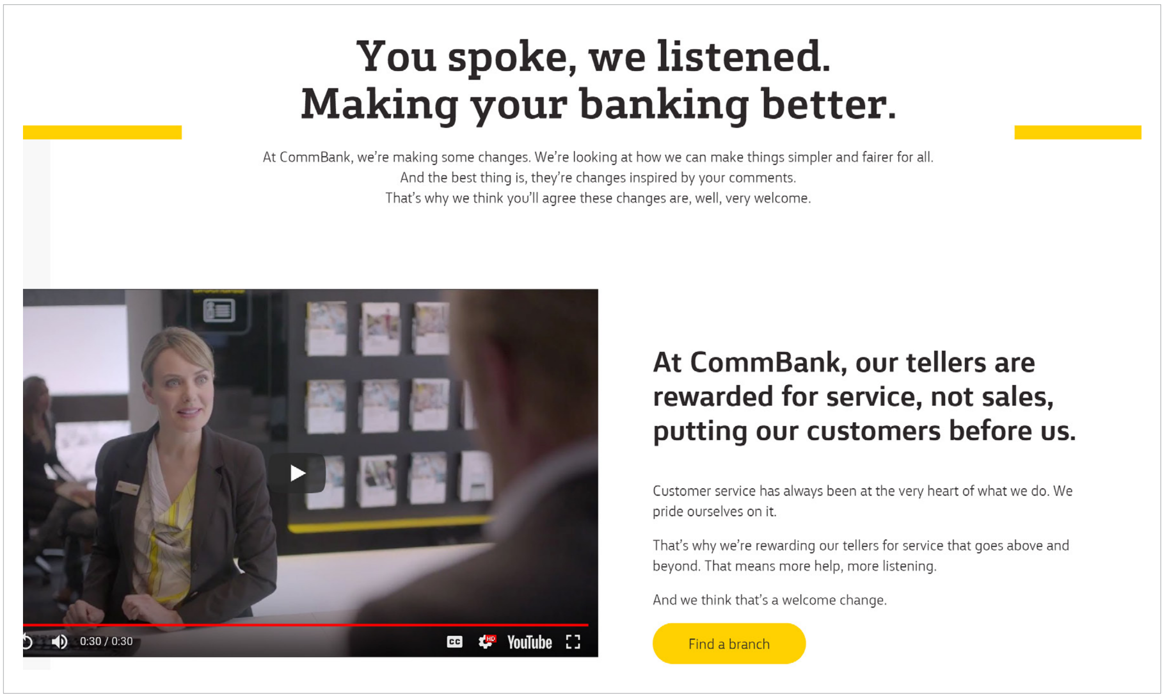


Figure Seven: Does appearing Benevolent offset loss of Character and Capability?

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The power of understanding the drivers of Trust is illustrated here. We note that as investors advance in their career, the driver in focus (this is just one of handful of drivers) becomes more important.

However, at the very time that performance of this driver is important, the average retail fund's performance deteriorates. Funds have not demonstrated an understanding that the components of Trust evolve over time. Treating trust as a 'one size fits all' artefact is a common managerial folly.

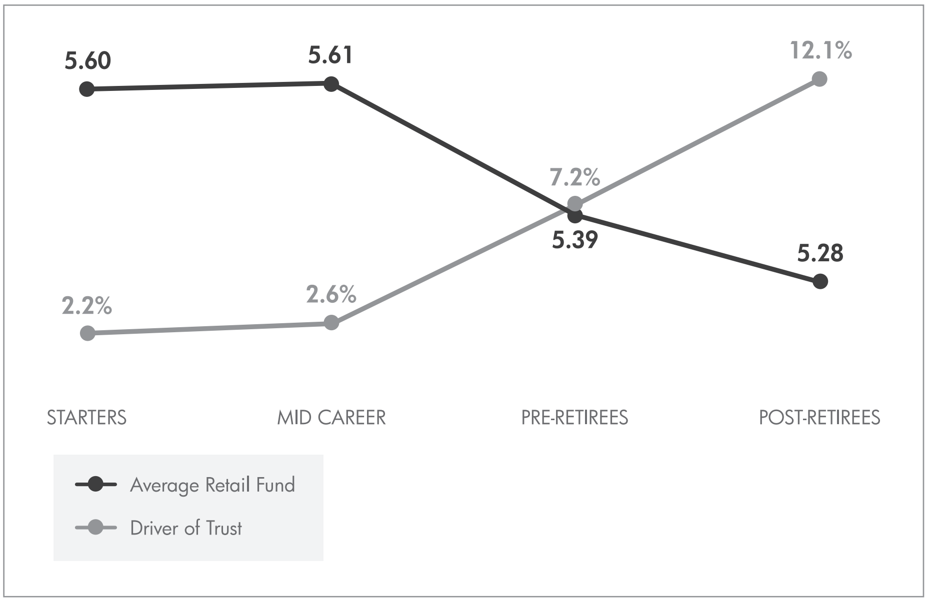


Figure Eight: The increasing importance of a driver of Trust with the falling performance of retail funds on that driver. Source: AustralianSuper 2017.

One can only presume that this contraction occurs because the retail funds have not deconstructed Trust to its constituents or drivers. For the retirees group, the performance of the specific and important driver regarding the outcome of investing in a pension product, falls to its lowest level. Put simply, before reconstruction comes the deconstruction of Trust.

# Conclusion

*Without the primary data analytics, decision makers are guessing that building trust will have a positive effect on business outcomes.*

Not everything positive that an organisation undertakes builds trust, nor everything negative detracts from trust. Sometimes an organisation should speak harsh truths, risking short-term offence for long-term credibility as an honest broker who really 'has my back'.

Trust is related to all forms of organisational citizenship such as altruism, civic virtue, conscientiousness and courtesy. However, are these the elements that drive purchase behaviour? Commentators often claim that poor corporate behaviour undermines people's trust. That might be so, but any consequences to business outcomes depend on whether or not the poor behaviour impacts on a driver of consumer Trust and if that driver is related to purchase behaviour.

Without the primary data analytics, decision makers are guessing that building trust will have a positive effect on business outcomes. There are occasions where Trust is a driver of choice and an organisation attempts to build Trust through advertising. The consumers' well-honed cynicism filter means that you cannot communicate your way to Trust. To be completely blunt, these executives are most likely to be underweight on reasoning and overweight on instinct (topped up with a dash of optimism bias).

When a corporation's risk committee talks about Trust and Reputational damage you can be certain that they do not have before them a causal model of Trust. Intuitively, they might feel that trust matters, however, they have little idea about what attribute of Trust is driving acquisition or retention and the extent that it matters.

From an acquisition and retention perspective, Trust lies firstly in the precinct of data analytics. Beyond that, an organisation must deconstruct Trust by establishing the drivers that relate specifically to who they want to trust them and for what purpose. Lastly, claims need to be tested for plausibility and coherence. Organisations are often alarmed to discover that due to lost trust, cynicism towards all communications is high.

For those categories where Trust is important to consumer choice, be aware that you "cannot fatten a pig on market day." Trust must be stored. And finally, beware the organisational executive who free-rides on past trust by maximising revenue today at the expense of trust tomorrow. Trust is not a rebounding rubber ball. It is a pane of glass, difficult to rebuild and therefore, imperative to protect.

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