Reclaiming Trust

By

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ABSTRACT

The loss of trust in a commercial relationship will have not only serious short-term, but debilitating long-term effects. Consumer trust has been seriously <decayed> as a result of the recession and the revealed <rot> in the employment, finance, and real estate systems. Flagrant disregard for these systems and profiting by those inside has exacerbated the problem. All of which was happening within an environment of already accelerated, persistent change. There is a reasonable chance that the global economies will not turn around as quickly as some hope. In the event that is how the world unfolds—and maybe even if it doesn't—the blows to the state of consumer trust may permanently shift. Such a trust deficit creates higher transaction costs for business and is decidedly unfavourable. This is particularly so for those who may have breached consumer trust to the extent that they are not being given the opportunity to prove they deserve to be trusted again. One—perhaps the only—efficient alternative is "derived trust." To reclaim the state of commercial trust that existed prior to this economy-led decline will require trust to be "borrowed," which should be part of every marketer's short- to medium-term plans right now.

Would anybody blame an injured theme park guest for losing faith after the much-promoted, "safe excitement" of the loop-de-loop got loopy on him? Would that same patron not be justified to maybe never to return after a bout with botulism purchased at the concession? Of course! The trust contract is breached.

What if that one guest was actually every theme park patron during the summer of 2009? Could the industry reasonably expect to recover by carrying on as it had been? Even if it was all just bad luck and not their fault, and there is nothing generally wrong with the rides and services? What can this industry or these businesses do to reclaim the lost trust at the root of their woes?

This scenario is, of course, completely fabricated to illustrate how a loss of trust in a commercial relationship will have not only serious short-term, but debilitating long-term effects.

The situation

The extraordinary evaporation of corporate and individual wealth that took hold in 2008 is the most significant economic retreat since the Great Depression. This is well documented and without question. The more pernicious outcome has been the broad decay of consumer trust, particularly in the employment, finance, and real estate systems.

"Trust is the expectation that arises within a community of regular, honest, and cooperative behaviour."[i] It is contextual, fluid, and without it business relationships are more difficult and costly. Trust is a feature of social capital, which itself is the thick description of that quality essential for the reduction of transactional friction in society. Transactional friction makes for higher transactional costs, which is why a trusting commercial relationship is so critical to every business—to none more especially than those that tread in the murky waters of personal and financial safety.

Like back in the 1980s, when only the savings and loans melted down in the USA, there was no 1929-like run on the banks this year thanks to public bailouts. Toxic debts have been sopped up and governments made guarantees. But long before Merrill Lynch's, Wachovia's, and Lehman's problems there were shocks such as the Baring's collapse and laying low of Société Générale that should have told us something about the situation in the world of financial markets—where so much of our collective future economic safety had been staked. And let's not forget that Bernard Madoff conned thousands of people for $50-billion: another horrifying example of systemic corruption and why it seems nobody can or should be trusted.

It wasn't just failed financial alchemy that destroyed trust. It was the flagrant disregard for the system and for those outside the industry bubble. Enron is the corporate malfeasance poster child but in actuality no worse than others such as Tyco and the many executives who used the shareholders' business as a personal piggy bank. Worst in this most recent crisis had to be the AIG executives who took outrageous bonuses *even as* the government bailed it out from its own mismanagement with billions of taxpayer dollars.

By blows such as these, the level of consumer trust sunk. It has perhaps fallen so far because it had been built up so high. For instance, we trusted that the global banks' hedge fund and derivatives wizards knew what they were doing. (Nobody else did!) And why not? Every banker, broker, financial journalist, pundit, and purveyor of services kept confidently saying, "Don't worry. Trust us."

The implosion of the household economy pushed corporate reputations and consumers' trust of business into the abyss. Addressing corporate reputation management, the authors of a *McKinsey Quarterly* article entitled, "Rebuilding Corporate Reputations," refer to business's loss of moral authority to speak credibly about regulation.[ii] In their line of argument this is an issue for reasons such as it being an obstacle to influencing regulatory environments. True, and I would also suggest that the same authority to speak credibly to consumers has also quite substantially evaporated for many of these businesses as well. That may be much more problematic in the short run.

Let's recall that the environment of the past several decades has been one of extremely fast technological and economic change. Persistent significant change alone is destabilizing and—given the relative absence of harm from it—culture shifting. We all came to believe the advertising: we should have it all. And with a little debt, we could. The persuasive businesses that would enable it all with neat stuff and unwarranted credit asked people to trust that they knew what they were doing *and* that what they were doing was in their customers' best interests. Particularly in that context, the stark contrast between taxpayer-funded bailouts and high-profile pillaging of that funding, and the pain felt by those whose faith was broken could only result in repugnance and wariness. Seeing these and other businesses doing what needs to be done to survive the storm would wreak cynicism and spite. For those who are collateral damage, it's hollow comfort that corporations are faring better this recession because they have taken early decisive action.

Whether any individual or organization was culpable—is neither here nor there. It's what people think and feel that matters. And many, many people think they "won't be fooled again."

The prognosis

Everybody wants to know when the economy will turn. Nobody has the answer. Economists and watchers that create the daily news spin indicate that by late 2009 the end will have begun, and by late 2010 the world will be rebuilding and growing. Recent consumer confidence increases in North America would seem to bear that out.

It's possible, but hardly likely. Not to be gloomy, but it seems a little optimistic to think the *world*—and, let's be honest, the United States' economy—can digest and pass this bitter pill so quickly. There is a lot of built up "irrational exuberance," unaffordable debt, misguided expectation, and other bad business karma to burn off. Chances are it will get worse before it gets better. At that, getting better will take healing time even after indicators say the economy is recovering.

Healing may mean consumers continuing along the "new normal" of saving money and taking a (grudgingly) realistic approach to risk.[iii] Over the past decade, particularly in financial terms, there were relatively few real losers. When the house pays out more than it takes, even non-gamblers feel immune from loss. Too many consumers became convinced there was no down-side. Now, we've come face-to-face with it and have had to adjust—the hard way. The hard way is with more than temporary belt-tightening. It's an adjustment of worldview and self-conception.

How this shift unfolds will depend on how long the pain continues for the majority. The pain will persist so long as the economy suffers; so long as home equity remains way down; so long as nest eggs stay (well) below their earlier peak; so long as the media continue to see signs of economic negativity.

Brief, intense pain can often have limited residual effect because it ends quickly, so we can begin to forget it. Persistent pain remains with us and we don't forget; it tends to be seared into our psyche. Why else do you suppose otherwise affluent retirees who were children of the Depression would remain excessively frugal to this day? Intense prolonged pain changes what we do.[1]

If you believe that the economic climate will remain negative for another year or more and that the highly publicized failures and acts of pillage will not quickly be forgotten (i.e., that you can't unring a bell), then expect these breaches of trust to change the conditions of the implicit consumer contract. The only questions are how much and is it redeemable?

[1] After a year of experiencing shooting pains every time he reaches backward with his left arm, a guy goes to the doctor and says, "Doc, every time I do this, it hurts." The doctor responds, "So don't do that."

On the other hand, it is possible that if the economic situation reverses and everyone's house, investment portfolio, and bank account recover to early 2008 levels, all might be forgotten. Of course, that presumes the events of the past 18-months will all, like Pam's dream, be erased from memory.[2] Common wisdom says memories of brief bad things can be short when good things abound. But it has to get *very* good, *very* fast.

Consumers are unlikely to soon again trust those they'd put their faith in before—the ones that threw the party in their house, left them with the mess and a hangover, and made off with the silver candlesticks. If that happens, businesses—especially those trying to reclaim the beneficial relationship conditions that existed before 2008—can expect higher transaction costs to offset the loss of trust.

A prescription

With a trust deficit, daily business conditions are unfavourable. A business in such a state would probably want to change that. Regaining credibility and trust, however, is not a directed and wilful solo or one-way activity. You may influence that change, but ultimately what you're trying to change is a very personal perception and the perceiver is in control.

What to do?

Step one is contrition: much more than advertising and PR-spun apologies. The contrition has to be visceral *in act*. Offenders need to begin mending the situation with a "12-step" approach: admit guilt; apologize; get on the wagon; overcompensate; don't relapse—ever.

Actual offenders *and* even those guilty only by association are obliged to act. Not all banks were irresponsible or failed, but they all played in the same pool at the same time. It's a guilty verdict of an Inquisitorial nature. What's fascinating is the truism about trust that's revealed. Trust *develops* linearly and gradually through feedback of positive experience; trust *declines* non-linearly in what might be considered disproportionate steps. As the old saw goes, it takes a lifetime to build a reputation and an instant to lose it.

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[2] For those too young to remember, this petrified cultural reference is to how long-running hit television series *Dallas* reintroduced actor Patrick Duffy's character, Bobby Ewing, a year after he had been tragically killed. The entire subsequent season, it turned out, had been his wife's dream. Viewers didn't buy it then either.

It's critical to truly refocus on the consumer. To regain integrity—which is what has really diminished—demands continual proof. If you say you act in your customer' interest, prove it. Where there's risk, take it on or eliminate it: shield your customer. Where risk remains, be transparent about it. Focus on the customer's experience. That's more than just smoothness and pleasantries. Regaining trust means showing the highest integrity toward your customer. The experience, pleasant or not (and many things are *not* pleasant) has to be "pure." That means clear and to the purpose, sure, and certain without raised expectations or surprise.

A programmatic approach to remedy and healing will certainly help some, but what about those who can't even get the chance to prove that they deserve to be trusted again? How do you break through a psychological barrier of consumer hurt and cynicism when you can't even get the opportunity to prove you've changed?

A structure for *derived trust* projected by a trusted third party is required. The trusted third party—another organization that everyone believes to act reasonably, consistently, and with disinterest—is an institutional substitute for diminished or absent trust in a commercial relationship. Technology, process, and policy remain necessary to hold the trust of customer/consumer constituents, but are hardly sufficient to reclaim trust that has been lost. Solving that problem, to the extent it can be solved, needs others to project their trusted standing over those structures, processes, systems, and relationships to salve the wounds, thereby limiting the transaction cost increases that come when trust decreases.

Living with the condition

The post office—the *sine qua non* of economical physical communication—is just such a party from which to derive trust and reclaim trusting relationships. The post office is legally obliged to protect information and the relations under its umbrella by methods hundreds of years in the refining.

The world's post offices, including Canada Post, also possess other assets that support this trusted position and opportunity to aid businesses and consumers to reclaim the earlier state of their relationship. Consider these elements of the Trust Services that can be and are provided by Canada Post:

- Physical and electronic infrastructures that are secure and designed to protect information.

- The legal right and obligation to enforce high standards of communication sanctity.
- The most extensive network of consumer-facing retail outlets touching every person in the country.
- A powerful, iconic brand that connotes independence, neutrality, and certainty.[iv]

This is by any measure a potent mix of rights, infrastructures, capabilities, and relationships to bring to bear for the greater good of the nation.

Ultimately, to reclaim the state of commercial trust that existed prior to this economy-led decline will require trust to be "borrowed"—at best only to seed, at worst to replace. Derived trust plans should be part of every marketer's short- to mid-term plans right now.

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[i] Francis Fukuyama, *Trust: The Social Virtues & the Creation of Prosperity.* The Free Press: New York. 1995. p. 26.

[ii] Sheila Bonini, D. Court, and A. Marchi, *The McKinsey Quarterly*, "Rebuilding corporate reputations." June 2009.

[iii] Nicole Maesti, *The Ottawa Citizen* (Reuters), "Thrifty buyers are 'new normal,' Wal-Mart shareholders told." 6 Jun 2009.

[iv] Brand Finance Canada, *Canada's Most Valuable Brand* study. Spring 2009.