Trust and Mistrust

Radical Risk Strategies in Business Relationships

Aidan Ward
and
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Preface

This has been a difficult book to write. When I consider why I think the issue is this. There is an expectation that, in a business book, ideas are put forward with supporting evidence about how those ideas produce better business outcomes than their supposed rival ideas. When the book goes out to review or I imagine the reader reading it, I have to deal with that expectation.

The expectation contains two problems. First, it is distrustful in its nature and this book is about the effects of trust not of distrust. Second, it uses a notion of business outcomes that we hope to show is self-limiting if not self-defeating. The outcomes we want trust to deliver are not on this map, although secondary effects of trust are clearly visible in the bottom line.

That such a book can get written is already a minor miracle of trust. We are particularly grateful to Diane Taylor at John Wiley, who trusted us to produce a business book that deals with something that is not supposed to be an issue in the business world: the accountability of people for the nature of their relationships with others.

The challenge to the reader is this: can you exercise critical thinking not to dismiss the arguments of the book but to open up new questions about business practice and business potential? We have persevered with the project because there is an audience of business readers who particularly need an insight into why the predominant approaches to business relationships and to building or recovering trust are so unsuccessful.

In the political life of the UK the effects we talk about in the book are writ large as we write this and probably determine the future of the government. There is a determined and long-term attempt by governments of both persuasions to improve the value for money spent on public projects and services. The Treasury sets performance targets and establishes schemes such as the Private Finance Initiative to reduce costs and export risk to agencies and contractors. The available evidence, much of it necessarily anecdotal and private, is that this has greatly increased costs and escalated risk to the public purse. It is difficult to imagine a more contentious issue, but from the perspective of this book the multiple distrust of the Treasury (of the agencies and contractors, of the public in its need for evidence, of other government departments etc.) actually leads directly and inevitably to huge avoidable costs and risks. For the record it appears that the US situation is recognizably similar.

Our argument is that it is necessary to take the immediate personal and political risk of trust and engagement with the other players, and accept that this creates vulnerability for both sides. By avoiding this fundamental first step and hiding behind mechanisms, contracts and legal provisions, what has actually been hidden is the ways in which all those mechanisms can be exploited. It was ever thus, but the lesson has to be learnt anew by each generation. For the first time, to our knowledge, we explain here how the trust equations produce this inevitable result. The way we relate to others in our business dealings determines the nature of the options open to us. Low-trust ways of relating are incredibly constraining of those options, even while they appear to give defensive security.

Likewise in business organizations, certainly the many we have worked with, there is doing the business and there is demonstrating what a good job you are doing. If the latter is done in a spirit of mistrust, doing the business is damaged 90% of the time. Accountability for this effect, which is larger than other performance factors, is non-existent. The people we work with can generally describe (and lament) this effect from their personal experience. They know it to be the experience of their peers also. But they cannot see a way through. If this is your experience, then this book is for you. People are not in general cynical, but the systems we work in certainly are.

However, although we as authors keep succumbing to the temptation to describe the mess people get into, the message of the book

is elsewhere. The message is how to understand the types of trust necessary to do the business, and how to manage the risk involved in extending that trust.

W.A.W.
Longfield
26 November 2002

To me there are three vital issues as far as trust is concerned. First is understanding what it is. I get this understanding through the model Aidan and I have developed. Second is doing something about it (if I choose to). This ability – that great feeling of being able to change something as a result of knowing something or learning something – comes through use of the Scimitar methodology we have developed together over a number of years. It is a privilege to get the opportunity to share these understandings with the reader.

The third issue is that the first two have to apply to every aspect of my life regardless of situation and context. Of the three this is the most important to me.

The opening sentence of our introduction is *We all know what trust is* and of course we do, just as we all know what food is or travel or well-being or music or management. One of the things *we all know* about all those things (and practically everything else in our lives) is that there are hundreds of books about them and hundreds of experts ready to give us advice and tell us what's what about them. Trust isn't like that. Trying to describe the taste of a raspberry, for example, is really a waste of time. Pop one into your mouth and try. Trust is like that. As the great Ludwig Wittgenstein said, 'no one can think a thought for me just as no one can don my hat for me'.

We already knew that our Scimitar methodology worked in the wider world – that it wasn't constrained solely to managing business risk – and our trust model needed to be in keeping. My view is that it does precisely this. I see our model as the equivalent of the old machine code in computing. It underpins the whole shooting match. Everything else – languages, operating systems, utilities, applications, communications channels, user interfaces, you name it – all run on it and are all compiled under it.

Leaders and managers have sometimes to drill down as far as they can go. I think dealing with trust is one of those times. When you get there you'll find our model.

<div align="right">

J.R.S.
Beighton
22 November 2002

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Glossary

Lots of reading has been done and lots of ideas explored by the authors during the time it took getting this book from concept to hardback. Our annotated bibliography and guru list is a brief distillation of that work. The hope is that in reading it the reader will get two things from it. The first is a sense of precisely how densely interconnected the world is (and the connotations this has for business improvement). The second is that by 'standing on the shoulders of giants' we all get a better view of whatever it is we are looking at.

There are several – no more than a dozen or so – key ideas and concepts that are impossible to present other than in their original words. While their meanings are explained in the text and bibliography, the glossary below provides a shorthand guide.

Amputation   Marshall McLuhan's insight that technological improvements, while extending our capabilities in some way, cause the skills that are made redundant in doing so to be amputated.

Authenticity   The difference between a person applying his or her skills to the achievement of a task and a person creatively working for success is authenticity.

Commoditization   The change that takes place when something that was once special and scarce becomes a mere thing of trade.

Consistent   The fact that some of our feelings about what motivates us to trust are fairly unchanging in the short term. Given our nature, authentic trust and authority trust tend to be consistent. An exploitable source of leverage in the power game.

Device paradigm   Albert Borgmann's brilliant exposition of the nature and impact of commoditization.

Degrees of freedom   The scientific and mathematical notion that there are independent directions in which progress is possible.

Extension   McLuhan's upside to his downside amputation.

Inconsistent   The fact that some of our feelings about what motivates us to trust can change rapidly and are likely to do so. Network trust and commodity trust tend to be inconsistent. An exploitable source of leverage in the power game.

POSIWID   Acronym reflecting the fact that the purpose of a system is what it does.

Publicness   The loss of the authentic self that arises from conformance with imposed preconceptions, options and values.

Reification   The process by which we convert people into things and things into people to make dealing with them more comfortable for ourselves.

Scimitar   Risk management system designed, developed and owned by Antelope Projects, forming the direct bridge between the abstract world of trust and the real world of business improvement.

Unencumberment   Describes the way our lives are made easier with commoditization. Similar to McLuhan's concept of extension.

An Introduction to Trust

We all know what trust is. We know it instinctively and intuitively. Our knowledge of it is in many ways more useful and more practical than the descriptions of it in the literature. Our knowledge informs the ways we relate to others, including the ways we do business. Since time immemorial and never more than today, we need to know who we can trust with what. We want to draw out and build on that intuitive knowledge.

Trust affects power. It changes the balance of power in relationships. Trust between people increases security and potential while it lasts. Trust produces the vulnerability to the risk of betrayal and failure. In some of the modes of trust we will describe, trust is associated with power to influence, power to manipulate, power to exploit and even, *in extremis*, the power to dominate. These effects of trust in modulating the power balance across business relationships are less well understood. They need to be articulated if we are to understand how to extend trust. In many ways business language hides these effects: we are often uncomfortable describing business as the exercise of power, and even more uncomfortable talking about accountability in the use of power.

We want to reclaim a meaning of risk closely associated with the exercise of power. If we trust someone we put ourselves at risk but we do so voluntarily. There may be no way to get a piece of business done except to engage with that personal risk. To deny or externalize

that risk is to start to enter the world of blame and the misuse of power. We want to reconnect our intuitive understanding of trust with a sense of the roots of business risk.

In our business dealings we have little difficulty extending this understanding. We know when we trust another organization or another division of our own organization, and we know the sorts of things that can put that trust under strain. We probably say that trust is important in business and that to build trust is to build a foundation for business success.

There are, however, things that confuse our instinctive understanding of trust:

- When there is a formal process or bureaucratic procedure involved in our dealings with an organization we lose sight of the object of trust: do we trust the process, the operator of that process or the institution that owns the process?
- When we are looking for a service and the requirements we have are not met by the available offerings: do we trust the providers of the offerings?
- When someone whose integrity we believe in has to make a pronouncement in public about some fraught subject: do we trust the information he or she conveys?

All these scenarios have a business context where the logic of the context and the logic of trust are at odds with each other. And, business being what it is, countless others arise endlessly. Understanding trust in a full business context is much more demanding than understanding it in simple relationship terms. The aim throughout this book is to enable the reader to reach an understanding of trust and to plot a course for improvement by modelling and analysing all the factors that are at work. We then show how the resulting trust analysis is used in delivering and managing these improvements in the real world in which the firm has to exist.

A model should be as simple as possible and no simpler. Our model of trust extends our instinctive understanding to distinguish four different sorts of trust and their interaction. By starting to classify the different sorts of trust important in business situations we can see more clearly both how to build appropriate trust and how to manage the business risks involved.

The Importance of Trust in Business Environments

With good enough trust between the parties in a business environment, you can:

- be aware of far more of the workings of the environment, including how you can generate value for other stakeholders;
- strengthen business relationships to deal with unimagined opportunities and contingencies;
- understand how to develop lean business processes without unnecessary or counterproductive management activities;
- manage business risks that will otherwise play havoc with the business.

Something about the way that businesses and business sectors are organized and the business cultures they create leads to a lack of appreciation of the potential in this list. Today when the word trust is on everyone's lips there is little or no systematic discussion of its importance for today's business decisions. Our aim is to fill the gap by describing how to build appropriate business trust and how to get that trust to build into sustainable business advantage. Trust is, of course, all about sustainability anyway.

A Cycle of Abuse

When business people deny the importance of trust, when some of their business relationships become cynical and exploitative, then a cycle is formed: lack of trust leads to cynical actions and cynical actions lead to a further erosion of trust. People come to discount anything that is said and instead look for evidence of devious ulterior motives. A firm with responsibility for maintaining the safety and serviceability of the UK rail network extended this cycle into the realms of double-bluff by refusing to discount sabotage as the cause of a fatal accident despite there being no evidence to that effect.

In a number of recent cases – for instance, Enron, Worldcom, Xerox and Railtrack – we have seen the public face of business drift well away from its underlying state. This is not a new problem: we

well remember BCCI, Barings Bank and the Maxwell affair. Nor are these isolated cases of criminality in a sea of upstanding business behaviour. All businesses, including our own, learn to present themselves in a way that furthers their business interests. If there is a problem here it is as much the public fantasy – that there are straightforward 'facts' to be 'disclosed' – as it is to do with deliberate business disinformation. There is every bit as much of a problem with people acting on partial information without context to the detriment of a business's interests as there is a problem with businesses being economical with the business truth.

As an example, consider safety critical software in modern aircraft. Many software systems are critical to the safety of an aircraft and the public have some awareness of this. The public face of the industry is that this software does not have errors that could cause its failure: people simply would not fly. Engineers recognize that this Holy Grail of error free software has never been achieved and is never likely to be.

A colleague of ours who demonstrated his software quality toolset on a 'live' sample of this software reported so many problems that he thought he had been given some test code designed to exercise all aspects of his toolset! It is difficult to hold together the public face and the private reality: no one would publish an article we wrote exploring this difficulty. Indeed, the public face very much gets in the way of improving the quality of the software. Boeing, to give it credit, when it set up the project team for the software intensive 777 actually tackled this cultural problem head on. The public perception of these issues is always likely to be misguided. We could recall the Ariane 5 rocket, which used tried and tested navigation software from Ariane 4. It crashed because the greater acceleration of Ariane 5 took some numbers in the software beyond their limits, causing the programmed destruction of the rocket. The Airbus Industrie approach to software, in vicious competition with Boeing, emphasizes separation between software and aeronautics, as did Ariane. Despite events, the public perception is that this is nevertheless an advantage.

What we see in this example and in the major failures quoted is simply business risk in operation. There is no doubt that all businesses in all their business relationships have to negotiate these sorts of problems. With shareholders, suppliers, customers, regulators and staff there is a balance to be struck between presentation and

manipulation, between trying to engage stakeholders in the substance of the issues they face and making space for corrective action unimpeded by unhelpful investigation.

The crucial link in these delicate (or gross!) negotiations of business risk is trust. Can the other parties be trusted to play a positive role if disclosure takes place? When the UK government intervened to sort out the mess Railtrack had made of the rail infrastructure, they arguably made the problem much worse by seeming to overstep the bounds of trust. Trust encompasses not only belief in good intentions but in competence and other knock-on effects. It is not surprising that in many instances businesses choose to keep their own counsel and hope for better times around the corner. And it is not surprising that often those better times do not arrive.

The Power and Trust Dilemma

As a general observation, there are two ways to get business action: you can build collaboration with other stakeholders or you can push things through. The use of power to push things through can generate an addictive pattern of behaviour for organizations (Figure 1).
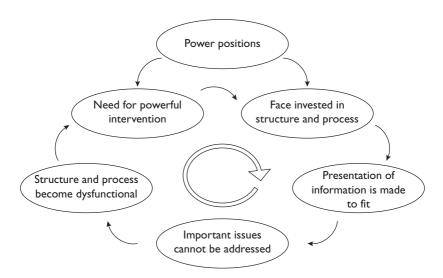

Figure 1   Power positions are self-stabilizing regardless of outcomes

This diagram illustrates quite clearly how the 'sabotage' issue in rail maintenance referred to above can become the firm's instinctive response, leaving the true cause of the problem unaddressed. Within this system people with power are always 'right' because there will always be a need for them to step in to rescue the immediate situation. The behaviour becomes addictive and so perpetuates the cycle. Again, trust is needed to allow a management situation to stabilize and become effective. Counter-intuitively, trust is needed for power solutions to work as other than purely political moves. The majority of management solutions generally only 'work' in this political sense and so in fact add to the problems they purport to solve. This is the root of the spectacular failures we have noted and many more mundane crises as well.

Our work as researchers and consultants has led us to the following observations:

- most people can see these sorts of systemic failures in situations they are not directly involved in, but cannot see them when they are too close;
- the cultures of the organizations we work with rarely support dialogue about systemic failures such as addictive behaviour;
- all organizations progressively lose the ability to ask the questions that count most.

Of course, as researchers and consultants we ourselves are not immune from these effects. In particular, it is a tough challenge to communicate at all about issues that are plain to us and at the same time strangely invisible to business people we would like to help as clients.

What we put forward is a model of how trust works in a business world. We explain how, by building the types of trust needed in a particular situation, addictive behaviour and spurious management initiatives can be avoided. We have come to believe that only by understanding how to build capability in this way can the underlying problems be seen. So the format of the book is to explain the importance of the different types of trust and to explain how they can be used to manage business risk. By following this programme we hope readers will discover for themselves business risks they are currently systematically blind to. This need not be enigmatic: once you have

built trust with some stakeholders, they will certainly tell you some things you never suspected!

There is also a positive benefit statement available from the perspective of lean systems. (A lean system is both effective and efficient because it has been progressively stripped of activities that do not add value to its purpose – for example, the Toyota Production System). From the perspective of appropriate trust in the key business relationships it is possible to see which activities, and in particular which management activities, are unnecessary or counterproductive.

Trust in Business

For the first time in almost half a century, the question of whether business corporations can be trusted, of whether businesses can deliver on what they promise, is firmly on the public agenda. Businesses too have questions about their business environment: can they trust the accounts of auditors? Can they trust the major providers of software systems? Can they trust their customers?

There have been shocks to the overall system of commerce that have brought these questions of trust to the fore. There have been major food scares that have given rise to doubt about the safety of what is on our plates. There have been corporate and market collapses that have suddenly destroyed people's savings. There have been entire industries transferred from public to private ownership with little or no consideration given to trust implications. There have been admissions that trade policies are rigged in favour of the rich and powerful. There have been transport scandals in the UK that have resulted in people doubting the authorities' commitment to public safety. There have been terrorist outrages that raise questions about foreign policy and the unilateral imposition of values. Most of us do not have to deal with these events directly in our businesses, but all of us experience the secondary effects in a changed business climate. In particular, there is more automatic scepticism and less immediate trust.

In all these cases people make pronouncements about the need to rebuild trust, about how our way of life depends on trust, about how business relies on its infrastructure of commercial relationships. Our particular subject here is the effectiveness of these

pronouncements and programmes that are supposed to build trust: too often they seem to have the opposite effect to that intended. Businesses need to know how to evaluate the trust they already use and rely on. They need to know what can damage it and what it takes to repair it. They need to know what they could achieve if they trusted more. They need a model of trust that is more use to them in developing strategy and tactics, in choosing a business path.

What Is Trust?

In developing our working definition of trust we begin with this simple statement:

> To trust is to rely on someone or something to take care of
> our interests.

To trust is not to assess trustworthiness. Neither is trust blind to risk and the possibility of betrayal. It is not a cost-free option. To trust is an act, a business move, which has profound consequences. It is radical in the sense that there is no substitute for it and its consequences and implications are unavoidable.

Our working definition talks about taking care of our interests. A major issue that we will have to confront is whether those interests can be assumed, or whether they are particular and specific to us. One major reason for the failure of trust is being treated indifferently, as though we were no different to anyone else. This one-size-fits-all lack of understanding of difference causes us to question whether we and our business have any distinct significance that is comparable to the trust we have extended. Trust is human and our uniqueness as individuals and business players is one reason why trust is radical in its implications.

This is the simplest trust scenario: two individuals simply trying to understand the degree to which they can rely on each other rather than establishing detailed expectations of each other's behaviour, or, heaven forbid, a contract. One fascinating question cannot be avoided any longer: is the world that one individual sees the same as the world the other sees? This is a bit philosophical but desperately important: the notion of where a person's interest lies is dependent

not only on the particular issue at hand but on the context of that issue. For example, whether a business deal is in my interest or not depends crucially on judgement about the character of the people in that deal. Now, we could shape this concern as a problem, that the person I want to trust might not see the same set of 'facts' as I do, but actually this is a major opportunity for trust, as our developing definition makes clear:

> Trust in someone allows us to extend our awareness to things that person can see that we cannot.

We can readily understand the thrust of this: if someone else can see something I cannot see, is their awareness centred on their own interest or on mine? We all see what we want to see to some degree: does this person see just what they want to see or does that 'wanting' encompass my interest as well? And take the inverse of this: I am to some extent blind to things that are unacceptable to me. Another person I trust does not suffer from these same blind spots and can therefore bring these things to my awareness. But how are they to introduce me to these things I do not want to know? Only by my trust in their handling of my best interests. Trust is never easy.

There is also a process angle on trust. How do I get to trust someone? This has a chicken and egg feel to it because until I extend trust I cannot experience a person's response to that trust, and until I experience the response I may feel unable to trust. Because this is a business book and because we take a radical view we are going to work with the proactive proposition: I extend trust because that is what I choose to do. We will explore at length why this cannot be a utilitarian choice – I choose to trust because it will lead to other things I want – but for now we need merely to insist that trust is not about an assessment of trustworthiness:

> The choice of trust in another party is not subject to pre-conditions.

If we make statements like 'I would trust you if only you could do this or not do that' we are making nonsense of the word. Equally if we say, 'I can demonstrate my trustworthiness in this way and so you should trust me' we are also making a nonsense. If we want