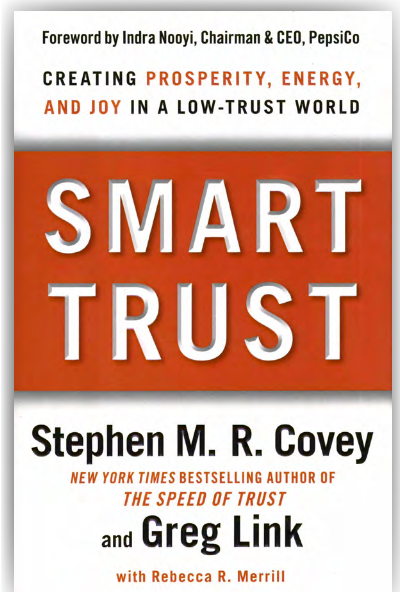
Business Book Summaries

November 23, 2012

Smart Trust

Creating Prosperity, Energy, and Joy in a Low-Trust World

Stephen M.R. Covey and Greg Link
with Rebecca R. Merrill
Foreword by Indra Nooyi



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ISBN: 978-1-4516-5145-4

Introduction

In **Smart Trust,** trust experts Stephen M.R. Covey and Greg Link examine how trust can be used to generate prosperity, but also to create joy and energy in all dimensions of life by minimizing risk and maximizing possibilities. The authors examine the very idea of trust and how there are different types, such as blind trust and distrust. They explain how smart trust is different, and how businesses and even countries that implement a smart trust policy enjoy success. They identify the steps businesses can take to put a smart trust policy into action. Although it seems that trust is at a premium in today's society, Covey and Link say that the world is actually in the midst of a trust renaissance as evidenced by smart trust at work in businesses as diverse as banking and online retail.

Trust in a Low-Trust World

It may seem strange to talk about trust at a time when it seems so hard to find and even harder to give. Headlines trumpet a world in which lies, deceit, falsehood, and even outright theft seem commonplace. In a world in which everyone from corporate CEOs to housewives is taught to be so guarded, is there really any way that a business policy based on trust can succeed? Absolutely, affirm authors Covey and Link, and they demonstrate not only how a business can implement a policy of smart trust and the benefits it accrues, but also show how successful businesses worldwide are currently operating with such a philosophy.

One of the greatest examples of smart trust in operation today is Grameen Bank of Bangladesh. The bank's founder, Muhammad Yunus, realized that the people rejected for loans at other banks had as much pride and integrity as anyone else, and would repay a facility that rewarded them with trust with a fervent desire to repay their loans. Yunus established an institution that loaned money to the poor and those considered bad risks by traditional banks. He imposed few restrictions or boundaries for payback. He also established a goal that at least half of the bank's borrowers be women. To date Grameen Bank has a 98 percent success rate of loan repayment. Yunus and Grameen Bank were awarded the Nobel Peace Prize in 2006 for their efforts to create economic and social development. Yunus is credited with beginning the worldwide microcredit movement. Yunus accomplished much in the face of resistance not just from an entire industry, but from an entire culture that was prone to cynicism and distrust.

People perceive the world today as a very untrustworthy place. Statistics indicate that only 46 percent of survey respondents trust business to do what is right. Furthermore, only 20 percent of Americans trust the country's financial system. The federal government's inability to hammer out a deficit/debt solution, and the ongoing European Union debt crisis, has led to an historic lack of trust in government as well, leaving the world seemingly without trust.

The headlines and statistics leave no doubt that the world is in a trust crisis. Yet, paradoxically, trust is more important than ever. The bottom line is directly connected to trust. The 2009 Edelman Trust Barometer shows that more than three-quarters of informed respondents refuse to buy products or services from a company they distrust. Even more eye-opening, high-trust organizations outperform low-trust ones in total returns to shareholders (stock price plus dividends) by 286 percent. From 1998 to 2010, high-trust organizations outperformed the market by 288 percent. Trust has become the new currency of the global economy.

There is a direct connection between trust and prosperity because trust always affects two key inputs to prosperity: speed and cost. In low-trust situations, speed goes down and costs go up because of the many extra steps that suspicions generate in a relationship, whereas two parties that trust each other accomplish things much quicker and, consequently, cheaper. The authors call high trust a "performance multiplier." High trust creates a dividend, while low trust creates a wasted tax.

However, trust affects more than just prosperity. It has a positive impact on creativity, health, emotions,

Key Concepts

At a time when trust is at an all-time low, successful business leaders know how important building and maintaining trust is. In **Smart Trust,** long-time business partners Stephen M.R. Covey and Greg Link offer Five Actions of Smart Trust for creating prosperity, energy, and joy in a low-trust world.

1. *Choose to believe in trust.* Belief is essential to getting results.
2. *Start with self.* Focus first on developing a strong character and competence.
3. *Declare your intent ... and assume positive intent in others.* Let people know what to expect.
4. *Do what you say you're going to do.* Delivering promised results builds trust faster than any other action.
5. *Lead out in extending trust to others.* Extending trust produces results, increases trust, and elicits reciprocity.

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By Stephen M. R. Covey

and overall well-being. Trust dramatically improves employee engagement, leading to such benefits as increased innovation. Trust also improves joy, which has become more and more important to people. The authors point out that Denmark, the most trusted nation on earth, is also the happiest country in the world.

In the same way that trust quantitatively changes prosperity, it qualitatively affects energy and joy. Some examples of flourishing high trust companies are Wipro, a large IT company in India, and Zappos, the Internet shoe retailer. These are just two of thousands of teams and organizations fueling the renaissance of trust.

Trust has many facets, one of which is creating a climate that benefits all stakeholders not just shareholders. PepsiCo, where CEO Indra Nooyi started a movement for the company "to deliver sustainable growth by investing in a healthier future for people and our planet," is one of the many examples of companies trying to improve the world just as much as the bottom line. The CEO of GlaxoSmithKline, another example of a business with an enlightened sense of corporate responsibility, Andrew Witty, says "If you don't have the trust of the societies you serve, you don't have a long-term sustainable business model."

The headlines and the statistics leave no doubt that the world is in a crisis of trust. What is less clear is that this crisis is simultaneously having a profound impact on economic well-being and quality of life around the globe.

About the Authors

Stephen M.R. Covey is a cofounder of CoveyLink and FranklinCovey's Global Speed of Trust Practice and the best-selling author of *The Speed of Trust.* He is the former CEO of Covey Leadership Center, which, under his stewardship, became the largest leadership development company in the world. Covey, with Greg Link, led the strategy that propelled his father's book, Dr. Stephen R. Covey's *The 7 Habits of Highly Effective People,* to be one of the two most influential business books of the twentieth century, according to *CEO Magazine*.

Greg Link is a cofounder of the former Covey Leadership Center, CoveyLink, and the FranklinCovey Global Speed of Trust Practice, a fast-growing global consultancy. A recognized authority on leadership, trust, sales, marketing, and high performance, Link is a sought-after adviser and speaker. At the Covey Leadership Center, he led the center's international publishing success, resulting in partnerships with more than thirty publishers worldwide.

However, even as people come to realize the importance of trust, there may be reasons why they find it difficult to trust. It all has to do with which glasses they are wearing.

Blind Trust or Distrust: Identifying One's Glasses

People view the world through two different types of glasses that various factors throughout their lives have helped to shape. Covey and Link identify these glasses as blind trust glasses or distrust glasses and offer a third alternative: smart trust glasses.

Looking through *blind trust glasses* creates a naïve, gullible, blissful trust in almost everyone and everything. These glasses are easy to wear because they do not require much effort or thought. People want things to go well, so they ignore the evidence. Unfortunately, blind trust glasses open the door for all manner of fraud and schemes. Blind trust is risky, and it typically does not represent the smartest way to operate in a low-trust world.

Glasses of distrust are often people's choice after they get burned by a blind trust experience. In a low-trust world, glasses of distrust seem like a natural response. They can feel safer, less risky, and give the feeling of more control. While most people realize the cost of trusting too much, they do not stop to consider the cost of distrust. The authors call this a "wasted tax" that can result in unwanted outcomes like redundancy, bureaucracy, turnover, churn, and fraud.

Distrustful behavior often brings huge taxes. The authors relate the story of a business that sold sunglasses. To try and halt inventory shrinkage, which the owner figured was caused by customer or employee theft (or both), he instituted a tie-down system on every frame so that the glasses could not be pulled off the shelves. He reduced the shrinkage problem from two percent to 0.2 percent. Unfortunately, because customers could not try on the glasses, sales decreased by 50 percent. Distrust not only affects relationships with customers, it also affects prosperity, energy, and joy within and between companies.

Trust has become the new currency *of the global economy. It is the basis on which many peole do business—or don't.*

Neither blind trust nor distrust is sustainable for a lengthy period. Those who trust blindly eventually get burned and those who live with distrust eventually experience financial, social, and emotional losses.

The Third Alternative: Smart Trust

Fortunately, there is a third alternative: smart trust. As Covey and Link explain, Smart trust is *judgment*. It is a competency and a process that enables people to operate with high trust in a low-trust world.

Netflix, eBay, and L.L. Bean are examples of companies that utilize smart trust in their everyday activities. L.L. Bean has an extremely generous return policy that puts trust in the customer, while both eBay and Netflix use customer trust as the foundation of their businesses.

Smart trust minimizes risk and maximizes possibilities by optimizing two important elements: a propensity to trust and analysis. The propensity to trust almost always provides the best starting point for smart trust. Analysis is suspended as a person or company decides to trust.

However, just because the propensity to trust is there does not mean that trust will ultimately be granted. This is where analysis comes in. *Analysis* refers to our ability to assess, evaluate, and consider implications and consequences, including risk. The three vital variables of smart trust analysis are opportunity, risk, and credibility. Some examples of people whose actions have earned them the trust label are Warren Buffet and Jon Huntsman, Sr. Knowing that the other person in a business transaction can be trusted brings many benefits, and deals are sometimes concluded with nothing more than a handshake.

Another example of smart trust, far afield from the business world, is the city of Bogota, Columbia. Once a crime-ridden metropolis, Bogota had the lowest murder rate of any major city in Columbia in 2010, all because its mayor instituted a policy of smart trust between citizens and the police.

Trust is not foolproof. Mistakes will sometimes happen. However, the more that people exercise trust and analysis the more successful they will be in creating high-trust relationships and opportunities and increasing prosperity, energy, and joy. Trust works both ways. The more trust is extended, the more trust is granted. Every action and reaction makes a difference. Each action of trust adds to the trust renaissance that is occurring around the world.

The Five Actions of Smart Trust

There are five actions of smart trust:

1. Choose to believe in trust.
2. Start with self.
3. Declare your intent … and assume positive intent in others.
4. Do what you say you are going to do.
5. Lead out in extending trust to others.

There is a dramatically increasing number of people and organizations everywhere engaging in the five-Actions of Smart Trust—thereby avoiding their opposites and counterfeits—and getting remarkable results, according to Covey and Link.

Action 1: Choose to Believe in Trust

Belief in trust is the first smart trust action that the authors consider, and it's no accident that it's number one. Belief is essential to getting results, and is the foundation of success. Deciding to believe in trust is the basic choice from which all of the other smart trust actions emanate. However, this belief in trust is not a now-you-see-it-now-you-don't thing, done only for convenience, appearance, or when there's no risk involved. Trust has to be the underlying approach that determines day-to-day actions.

Among the companies offered as examples is W.L. Gore & Associates. Founder Bill Gore believed in trust so greatly that he set up what is known as a "lattice organization" that still exists. Employees are considered "associates," and rate one another's contributions. A new CEO was chosen in 2005 based on employee feedback of who they would like to follow.

The authors note that many organizations tend to be based on a top-down structure, and an assumption that people cannot be trusted. However, the highest form of control does not come from reams of rules and regulations, but from a high-trust culture.

An extraordinary example of trust—and all the good that can come from it—occurred in 2007, when Ted Morgan, CEO of Skyhook, got a call out of the blue from Steve Jobs of Apple, who was considering using the company's technology. After fruitlessly trying to get Skyhook's technology noticed, it seemed as if this was the company's big opportunity. However, before the deal was done there was an Apple event, and Jobs needed Skyhook's code to showcase its products there. The code was the key to Skyhook's technology, and Morgan was advised not to give it out. However, he trusted Jobs, gave him the code, and was rewarded when Jobs showed off Skyhook's technology to an eager audience. Skyhook took off from there, thanks to a single act of trust between Morgan and Jobs. Who knows what would have happened if Morgan had refused Jobs.

It can be hard to overcome life experiences—ones that have quite possibly led to distrust. However, it can be done. Trust glasses can be put on and used to view the world and govern actions. If a person believes in trust, they can trust. Covey and Link are convinced that developing a belief in trust is the most powerful thing people can do to begin to access the benefits of trust in their lives.

Action 2: Start with Self

The second smart trust action is to start with self. It is not enough to believe in trust; trust has to begin somewhere. Individuals, leaders, teams, and organizations that operate successfully in today's world also behave in ways that grow out of that belief. It takes both character and competence to give a person the confidence to not only trust themselves, but inspire others to trust them as well. Self-trust affects not only a person's worthiness to be trusted, but also the way people see and interact with others. The authors go outside the business realm to offer as an illustration the story of how a young rookie for the Los Angeles Lakers named Magic Johnson rose to the occasion in his team's 1980 championship series with the Philadelphia 76ers. The Lakers' regular center, Kareem Abdul-Jabbar, was injured, so Johnson filled in and led his team to victory. He drew on the trust in his own character and competence to inspire the Lakers to victory. It was not ego—self-trust is never ego, arrogance, or bravado—but a quiet confidence —a trust in his own abilities that compelled him.

At its core, capitalism is based on three things: capital, liquidity, and trust. Though all three are vital, it is primarily the lack of trust that will cause the other two to be most deeply discounted.

Other examples of people with the capacity to be trusted include Peter Aceto, head of ING Direct Canada, who trusted himself enough to ask his employees outright if he should stay on, and John Wooden, the legendary UCLA basketball coach who committed to the school when another came calling because he had given his word to UCLA. Another example of a person who has self-trust is Almaz Gebremedhin, a cleaning lady and single parent who put all five of her children through Penn State and was named *Good Morning America*'s Woman of the Year.

Self-trust works for countries as well. In Denmark, 88.8 percent of the people express a high level of trust in others. Denmark is one of the most productive countries in the world, considered the happiest nation in the world, has the least corruption (along with New Zealand and Singapore), ranks number two on the prosperity index, and has the fifth highest GDP in the world.

The authors also examine some companies that once had great trust then lost it. One is Johnson & Johnson, which established great trust in the Tylenol crisis of 1982, then badly fumbled their handling of the Motrin situation in 2008. Another is Toyota, which had established a deep bond of trust with its customers that was shattered when the company mishandled an incident with sticking accelerators.

Restoring trust is much more difficult than establishing trust. Take, for example, the story of Frank Abagnale, Jr. A notorious con man early in life, he turned his life around and restored trust in himself as a security consultant who helped expose potential security system faults for businesses.

As part of this renaissance of trust, individuals and organizations are embracing the idea of corporate social responsibility, or the honoring of the triple bottom line: people, planet, and profit.

Action 3: Declare Your Intent … and Assume Positive Intent in Others

The third smart trust action is to declare your intent and assume positive intent in others. To declare intent, a person is signaling his behavior to others, telling people why an intended action is going to occur. As an example, the authors talk about the Charlotte County, Florida, school district. A hurricane devastated some of their facilities. The district superintendent called a meeting and declared his intent that all employees were going to be paid as soon as possible and that no jobs would be cut. As a result, the district built a strong trust with their employees, one that has carried over to contract negotiations and beyond. Two other famous cases of declared intent are Babe Ruth indicating that he was going to hit a home run on the next pitch and then doing it, and President John F. Kennedy declaring America's intent to reach the moon by the end of the 1960s.

Declaring intent is a performance multiplier that provides numerous benefits. It creates context, inspires hope, encourages reciprocity, and shows respect for others. It also increases trust. Eli Lilly Chairman and CEO John Lechleiter said: "We've learned that the best way of building trust is by letting people see for themselves what we're doing."

Failure to declare intent will usually cause people to react in one of two ways: Either they will try to guess intent, or they will project their own intent. In low-trust organizations, the guess is usually a worst-case scenario. A low-trust relationship will cause people to project their fears, suspicions, and worries more often than their hopes and dreams. As Mahatma Gandhi said: "The moment there is suspicion about a person's motives, everything he does becomes tainted."

Declaring intent builds trust fastest if the intent is based on caring and mutual benefit. No motive builds trust as quickly and deeply as the motive of caring. Numerous examples are given of caring intent, such as Zappos' slogan: "Zappos is about delivering happiness to the world." Another example is Whole Foods' CEO John Mackey, who said: "Ultimately we cannot create high-trust organizations without creating cultures based on love and care." Other examples of caring intent include PepsiCo, whose mantra is "Performance with Purpose," and Procter & Gamble, which strives for "purpose-inspired growth," evidenced by its give-away of a water purification powder that resulted in the creation of the Children's Safe Drinking Water Program.

Most effective leaders assume positive intent, which is an extension of trust. The act of assuming good intent changes the dynamic of a relationship. It inspires reciprocity. It leads to trust-building behaviors. It creates a virtuous upward cycle of trust and confidence rather than a vicious downward cycle of suspicion and distrust.

Action 4: Do What You Say You're Going to Do

The fourth smart trust action is do what you say you are going to do. Trust will fail if the person promising trust does not "walk the talk." Delivering promised results builds trust faster than any other action. This smart trust action combined with action three (declare intent) packs a powerful one-two punch. These two actions have the greatest power to knock out suspicion and distrust. If something happens so it becomes impossible to do what was said, communicate that fact quickly. It helps to reframe expectations and can also engage others in either renegotiating or helping to find alternative solutions.

Doing what you say you are going to do is the ultimate brand creator. It defines a person's own brand and it defines a company brand. In today's business world, a strong brand is imperative. The authors cite studies that the trusted brand is the most popular, as well as the most profitable. In addition, trusted brands (Rolex, Sony, Mercedes, etc.) command higher prices in the marketplace. As a bonus, declaring intent and doing what you say are the fastest ways to build a reputation and trust. Among the stories used as illustrations of this action is that of Gordon Bethune, former CEO of Continental Airlines. By instituting a smart trust policy, and doing what he said he was going to do, Bethune turned a struggling airline into the most admired airline in the world.

Action 5: Lead Out in Extending Trust to Others

The fifth and final smart trust action is lead out in extending trust to others. This is what leaders do—they go first, they are the initial ones to extend trust. If a person is not inspiring and extending trust, they are managing, or maybe administrating, but they are not leading. Extending trust produces results, increases trust, and elicits reciprocity. Extending trust can break negative cycles of distrust and suspicion. This leads to greater prosperity, energy, and joy for all stakeholders.

Covey and Link offer numerous stories as illustrations of extending trust, such as that of the Ritz-Carlton employee who was searching for a guest's lost ring. He did not find it, so he searched the laundry. Still not finding it, he took a washing machine apart and there it was. The Ritz-Carlton had extended the trust to him to follow his own initiative, and this sort of trust pays off for the hotel chain. Research reveals that guests who are actively engaged with Ritz-Carlton and its staff spend 23 percent more money than those who are only moderately engaged. A four-point increase in employee engagement scores companywide means an extra $40 million in incremental revenue for Ritz-Carlton.

When leaders lead out in wisely extending smart trust, their actions have a ripple effect that cascades throughout the team, organization, community, or family and begins to transform the behavior of the entire culture.

Businesses can also extend smart trust to their customers. Connecticut-based Zane's Cycles, one of the three largest bike shops in the United States, allows customers to go for test drives without asking for identification. "We choose to believe our customers," says founder Chris Zane. The company loses only five bikes each year out of 5,000.

One area in which smart trust can be particularly useful is with mergers and acquisitions. Eighty-three percent of mergers fail to create value, while more than 50 percent actually destroy value, mainly because of the people and cultural differences. Smart trust is the "secret sauce" of a successful merger. It creates the trust necessary to integrate the two cultures.

Creating a Renaissance of Trust

Each person can create their own renaissance of trust. Even a single person can make a difference. One person may not seem like a lot, but like a snowball rolling downhill, even one person choosing to trust is a significant addition to the greater whole. "It is our desire and hope that you will join us as co-catalysts, along with countless others, in seeking to bring about a global renaissance of trust for the benefit of people everywhere," Covey and Link conclude.

Features of the Book

Estimated Reading Time: 5–6 hours, 322 pages

Smart Trust will be beneficial to a wide group of business executives. Anyone who is seeking a change from a distrustful situation, wants to change a corporate culture, wonders how to bring more value to their company, its employees and customers, or even seeks to alter or improve their own situation, will find the information contained in Smart Trust useful and beneficial.

Smart Trust is peppered throughout with diagrams, Dilbert cartoons, and quotes from everyone to corporate CEOs to ancient Greek statesmen, all illustrating the essential role that trust plays, both in people's lives and in the fortunes of business.

The end of each chapter contains a section called *Questions to Consider,* in which the authors ask pointed questions that both enhance the chapter's salient points and indicate ways that the reader can put the chapter's lessons to use.

Contents

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