MANAGER/SUBORDINATE RELATIONSHIPS

Building the Virtuous Circle of Trust

By PABLO CARDONA and HELEN WILKINSON

In 2004, Kraft went through one of the worst periods in its history. Declining sales forced the company to embark on extensive restructuring, which continues to this day. Far from going under, the food group, one of the largest in the world, has succeeded in reinforcing its market position – with a 16.8 percent increase in net revenues in 2008 – and it hopes to complete its turnaround by the end of 2009. So, what's the secret?

The answer may be found in Kraft's corporate mission statement describing "Who We Are." Topping the list of behaviors that guide the company's strategies for growth is this telling phrase: "We inspire trust." Throughout the company's restructuring program, Kraft executives understood that actions speak louder than words, so they made an honest effort to be open and inclusive, to tell it like it is, to lead from the head and the heart, to discuss, decide and deliver.

Speaking at the World Business Forum in New York City in October, Kraft CEO Irene Rosenfeld shared one of her trade secrets: "How you manage change can make all the difference. During our transformation, we put a premium on communication from day one. This helped create an atmosphere of openness and trust. We also made a point of celebrating success, publicly and often. In business, we

tend to spend a lot more time thinking about the problems than the triumphs. People need to know that what they're doing is making a difference, and that their leaders notice and appreciate their efforts."

Trust is a key factor in corporate management and indispensable for the proper running of any organization (see **The Organizational Benefits of Trust**). It is among the chief criteria factored in to the annual ranking of the Great Place to Work Institute. In the 2009 U.S. ranking, NetApp, Edward Jones and Boston Consulting Group were the top three companies rated most highly by their employees in this respect. Although it is hard to prove the correlation between internal trust and financial results, these three companies are all certainly prominent players in their respective fields.

During times of recession, feelings of distrust in organizations intensify. Understanding how trust is built and maintained, therefore, becomes more necessary than ever. What factors contribute to trust or distrust within an organization? Is it possible to build trust between people who occupy different positions in the organizational hierarchy?

To tackle these questions, we have drawn from our experience as coaches and from an empirical study conducted among managers and subordinates in 18 countries, led by the Cross-Cultural Management Network, an initiative of IESE's International Research Center on Organizations (IRCO). After analyzing 2,848 replies and conducting a series of qualitative interviews, we have been able to validate our theoretical model on the dynamics of trust in corporations (we explain our **Methodology** toward the end of this article). Here, we present a model to generate a virtuous circle for building trust, which we support with statements from numerous managers and employees who took part in the study.

It Starts With Managers

Imagine an employee has just launched a major international project with great success. She arrives at work one morning and her boss congratulates her for a job well done. At that moment, she feels valued, and she may even see her manager in a more positive light for having recognized her achievement. What happens next? She may feel so encouraged that she applies even greater effort to her work, winning further approval and appreciation from her boss. Or she might be tempted to rest on her laurels for a bit. This could have potentially negative

The Organizational Benefits of Trust

CREATING A CLIMATE OF TRUST ENCOURAGES COOPERATION AND COLLABORATION, STIMULATES OPEN COMMUNICATION, INCREASES MOTIVATION AND, CONSEQUENTLY, INCREASES THE EFFICIENCY AND PRODUCTIVITY OF THE ENTIRE ORGANIZATION.

INCREASE IN EFFICIENCY AND PRODUCTIVITY	IMPROVED COMMUNICATION AND CREATIVITY
Subordinates feel free to express their opinions and are more motivated	An open and creative environment is nurtured
Subordinates are willing to go above and beyond the call of duty	Both managers and subordinates feel free to express their ideas and feelings, and this enriches the organizational climate
Managers are prepared to delegate more tasks and responsibilities	If subordinates detect some problem or perceive that something is not working, they will communicate this immediately
INCREASE IN SATISFACTION AND COMMITMENT	**TEAMWORK IS ENCOURAGED**
All members of the organization feel proud to be part of the organization and will act as good ambassadors for the company	Employees are more receptive and predisposed to sharing their resources
	An open environment promotes cooperation and collaboration

SOURCE: Based on findings from the Cross-Cultural Management Network study

consequences on her boss's view of her and reduce the trust that had been placed in her.

This everyday example shows that trust between managers and employees is a cyclical process, based on repeated behaviors that are reinforced over time. When the behavior of managers is trustworthy, employees trust their managers more. Hopefully, this encourages them to become more involved in their work and identify with the organization – what is known as "organizational citizenship." In turn, this keener involvement strengthens their bosses' trust in them, which also helps them maintain a trustworthy attitude. In this way, a virtuous circle of trust-building is generated in organizations (see **Figure 1**).

It all starts when managers instill trust in their subordinates through their own behavior. "Trust is a value that can be transmitted across the organization by its leaders, through honest, transparent and loyal behavior," noted a French executive in our study.

There are six key managerial behaviors that have been shown to sow trust with subordinates. As one interviewee rightfully stressed, "Trust is based on the interconnection of these components and does not exist if any one of them is missing."

1. CONSISTENCY AND PREDICTABILITY. If managers act in a consistent and predictable manner, without contradictions and always explaining the reasons for their decisions and actions, then they inspire greater trust in their employees. However, when managers behave in an impulsive manner, constantly changing their minds or acting arbitrarily, they lose the respect of their subordinates, who may follow their managers' orders, but with a great deal of frustration for not understanding the reasoning behind them.

The case of Victorinox is a clear example of how consistency reinforces credibility. Prior to 2001, the makers of the Swiss army knife had been doing a swift trade in their airport business, as the signature knives made nifty corporate souvenirs. Then the Sept. 11 terrorist attacks occurred, and it suddenly became illegal to carry sharp objects on board airplanes. In a matter of months, Victorinox saw a 30 percent drop-off in sales.

Victorinox managers needed to take drastic action. But they also had a long-standing commitment not to lay off employees. In order to avoid mass firings, the company stopped hiring, canceled overtime and reduced the work shift by 15 minutes. Employees were encouraged to take vacation, both accumulated and in advance. Top managers visited other companies to explain the situation and lent employees to them for temporary work of up to six months. Most of those anti-crisis measures lasted for about two years. In the meantime, they accelerated investments in new products – selling watches instead of pocket knives – and new markets – including Russia, India and China – to reduce dependence on one particular product and sales channel. By upholding their commitment to their employees, Victorinox managers effectively reinforced their internal trust and, as a result, the company was able to weather a rough patch.

2. INTEGRITY. Consistency in decision making is not enough on its own to create a climate of trust among employees. To earn trust, managers' actions must show integrity, that is, actions must be based on ethical principles. This means paying more than lip service: managers' words must be matched by meaningful actions. It does no good, for example, to apply double standards, setting the bar at different heights for those who are or aren't part of the coveted inner circle. Nor is it ethical to delegate tasks to a subordinate and then steal all the credit afterwards, instead of recognizing the employee's contribution to the successful outcome. Employees will only end up distrusting their managers.

3. OPEN FLOW OF COMMUNICATION. This is another essential variable in the trust equation. Manag-

EXECUTIVE SUMMARY

During times of recession, feelings of distrust in organizations become acute, making it more necessary than ever to understand how trust is created and maintained. According to the authors, the relationship between managers and subordinates is fundamental to building and maintaining trust. In this article, they present a model based on the results of an international study and their own professional experience as coaches. Put simply, when the behavior of managers is trustworthy, employees trust their managers more; consequently, they become more involved in their work and demonstrate "organizational citizenship." This greater involvement, in turn, strengthens their bosses' trust in them, which reinforces reciprocal attitudes of trust. In this way, a virtuous circle of trust-building is generated in organizations.