

BusinessWeek

OUTSIDE SHOT August 27, 2009, 5:00PM EST

Building Trust in Business by Trusting

We all want loyal customers and employees, but are you willing—like Netflix and Radiohead—to meet them halfway?

By Dov Seidman

The world's financial markets nearly collapsed last fall for one reason: lack of trust. Credit, the lifeblood of the global economy, all but stopped flowing. Even big banks refused to lend to each other because they didn't trust they would be repaid. We'd been taking trust for granted. Contracts back up our deals and transactions, but who would sign them without trust in their counterparties? Trust is essential to building enduring connections with employees, suppliers, customers, and the communities in which we do business. And it drives the risk-taking that leads to innovation and progress.

But how do you gain it? It doesn't hurt to be honest and ethical. What most managers don't get, though, is that the best way to build trust is to extend it to others. I often think of a New York doughnut shop owner who decided, years back, to let customers make their own change from coins he left out on the counter. He was able to serve them faster, yes, but he also won loyal customers and left his competitors behind.

Netflix ([NFLX](#)) trusts its employees to take whatever vacation they feel they need. Rock band Radiohead released its last album online, trusting fans to decide how much to pay, and generated more revenue than all its previous releases. The University of Michigan Health System encourages doctors to apologize when they make mistakes, trusting patients to forgive them—and risking legal liability. The number of malpractice suits has dwindled, and other providers are adopting this approach.

My company, LRN, has long moved in this direction (and counseled our clients to do the same). One way that we've extended trust has to do with how colleagues spend company money. We want our people to file honest expense reports. Who doesn't? But instead of tightening oversight, we did away with it: no approvals required. We still do random report checks and track aggregate numbers. It helps us arrive at smarter policies on booking airfares, for example. There's a trust payoff, of course, but there's also less friction between managers and team members—and more time to do our jobs.

Recently our belief that extending trust is the best strategy was tested. We decided to restructure our business after taking a hard look at how effective we had been in our mission of inspiring principled performance in business. We saw that we needed more people who could expand our compliance and ethics education business and deliver new solutions suited to our larger mission. And we would have to let go of many from our 400-strong staff to hire those new people.

As counterintuitive as it may seem, we extended trust to the people losing their jobs, to those remaining, to customers, even to our competitors. We provided severance packages lasting up to six months; these days many companies are dialing back on this step, but we wanted to take responsibility for our decision. No one was asked to pack up and leave. Most stayed on for two weeks or more. When they left, we let them take their laptops and cell phones. And no one had to sign a form waiving the right to take us to court or compete with us

or disparage us. Then we offered those staying a similar severance deal, in case they weren't fully on board. Two opted for it.

We took bold steps to keep our customers informed, sharing with them our internal memos, complete with financial and strategic details. We knew our rivals would get a look, but we trusted them not to mischaracterize the changes as weakness in our business.

LRN's outside legal counsel insisted on sitting down with me to talk me out of doing most of these things. I passed on that meeting. We'd be leaving ourselves vulnerable, our lawyers argued, but that's part of trusting others.

We recently surveyed employees—those going and staying—and found that 65% agreed with our decision and that 83% felt we handled the restructuring in the spirit of our values. We're a far more unified company now. We also have deeper ties to our customers, a number of whom have asked for help in building trust in their companies.

Managers have lots of tools for getting what they want out of their people, most of which fall into two categories: sticks and carrots. But to inspire employees to actually care, managers should judiciously put their own trust to use.

Jack and Suzy Welch are off this week.

*Dov Seidman is the founder, chairman, and CEO of LRN, a company that helps businesses develop ethical corporate cultures, and is the author of *How: Why How We Do Anything Means Everything...in Business (and in Life)*.*

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