

## Raise the Bar to Zero *Trust* Defects

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### Executive Briefing

*Practically every company today is geared up to satisfy its customers. "We do whatever it takes to satisfy our customers!" is the refrain. But, does customer satisfaction go far enough? There is, in fact, a wide gap between how most companies think about and measure customer satisfaction and what their most satisfied customers actually feel. Customer loyalty has been put forth as the bridge that spans this gap, capturing long-term relationship elements that provide a more complete picture of customers' feelings. However, loyalty traditionally has been defined in terms of its consequences: repurchase intent, referral intent, share of purchases, and actual repurchase. While these measures are indicators of loyalty, they do not answer the question, "What is customer loyalty and how is it created?" To leapfrog competitors, companies must go beyond customer delight and what benchmarking studies define as world class-standards, raising the bar to a visionary level that the authors define as "total trust," conceptually similar to "total" quality. The performance standard is zero "trust defects."*

**D**uring a presentation on client satisfaction to the managing partners' committee at a major accounting firm, it became apparent that the partner in charge of the New York region was disgruntled and annoyed. Finally, he waved his hand and, without being acknowledged, blurted out, "Do you know what our client satisfaction is?" "No," the speaker replied. The partner looked around the room as if to say, "Why are we wasting our time listening to this guy?" Then he announced, "Well, 77% of our clients happen to be satisfied." The speaker was silent for a moment, then asked, "Does your definition of 'satisfied client' include only those clients who score you at the highest end of the satisfaction scale, or does it include clients with varying levels of satisfaction?" With a look of disdain, the partner replied, "I'm not our statistician." Another partner volunteered, "Here's the story: On a one to five scale, where five is 'very satisfied,' and four is 'satisfied,' we lump them together and the total comes to 77%."

Looking the critic straight in the eye, the presenter said, "100% minus 77% equals 23%. The way I look at it, 23% of your client base doesn't think you're very good accountants." Then he wrote the following statement on an overhead:

"Every day that goes by in which you have dissatisfied clients, you are working hard to put yourself out of business." You could have heard a pin drop.

Customer satisfaction. Companies are paying plenty of attention to these two words. As well they should. New research reveals that changes in customer satisfaction are a leading indicator of changes in a company's financial performance and stock price.

Despite all the attention paid to customer satisfaction, there's a wide gap between how most companies think about and measure it *and what their most satisfied customers actually feel*. Hidden in this gap is a major competitive opportunity—one that only a few leading companies have discovered and capitalized on.

### Does Satisfaction Go Far Enough?

Many companies have had good success with efforts to increase customer satisfaction. First, who can argue seriously with the basic premise that satisfying customers makes good business sense? Second, research results from a number of studies make concrete the intuitive links between customer satisfaction and profitability. But, is the pursuit of

incremental increases in customer satisfaction capable of inspiring an organization's people? Does it give them a heightened sense of purpose and ignite the internal fires that can burn so much more brightly when people feel their efforts are in pursuit of a worthy ideal?

Consider Webster's definition of satisfaction: fulfillment of a need or want; the quality or state of being satisfied. How many employees are ready to charge up the hill in the name of "fulfillment of a need or want" or "the quality or state of being satisfied?" Despite the importance of customer satisfaction, it has become a low-octane phrase, not given to firing employees' imaginations and kicking in their afterburners.

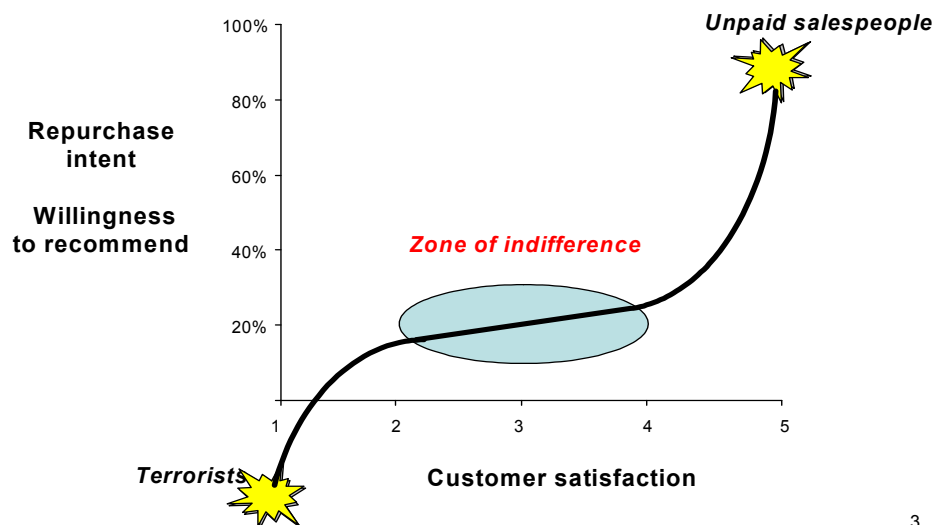
New phrases have been created to re-ignite the spark, for example, "customer delight." While this phrase connotes a sense of excitement and degree of passion that exceeds "customer satisfaction," can you seriously imagine your customers achieving a perpetual state of delight, beaming away endlessly about what they buy from your firm? The problem is that customer delight is a *transient, transaction-based* feeling. It's a good one for customers to feel, to be sure, but companies increasingly are moving away from thinking about transaction-based customer satisfaction and thinking more about developing deep, long-term customer relationships.

Finally, when customer satisfaction becomes the subject of books, conferences, benchmarking studies, and especially when government starts to get interested in it, which is now the case, sure signals are being sent that it is time to break new ground.

### Raising the Bar

Thomas Jones and Earl Sasser, in an *HBR* article entitled, "Why Satisfied Customers Defect," describe a groundbreaking study on satisfaction done by Xerox, the results of which have been duplicated numerous times in studies using data from the American Customer Satisfaction Index. They uncovered dramatic differences between the feelings of customers at either end of the satisfaction scale. (See Exhibit 1.)

## Exhibit 1. Xerox satisfaction study



Source: Xerox

3

Simply put, customers at the lowest and highest ends of the satisfaction scale tend to have *intense feelings* about the company. Xerox called the customers at the bottom end of the scale "terrorists"—those who actively tell others *not* to buy from Xerox. At the opposite end

of the satisfaction spectrum are those customers Xerox refers to as "apostles." Customers who scored Xerox in the middle range of the satisfaction scale tended to be blasé, falling into the "zone of indifference." The most striking finding was that customers who rated Xerox a 5 were 600% more likely than customers who rated them a 4 to say they would purchase the same machine again.

In science, when a line in a graph curves suddenly, it is often a tip-off that something new has come into play. Think for a moment about the lower-left portion of the Xerox graph. At the bottom end of the satisfaction scale, customers are not simply "very dissatisfied." Words like "anger," "hatred," and "rage" probably spring to mind.

Now look at the upper right portion of the graph. These customers are not just "very satisfied," they are *loyal*. For example, a woman in a management seminar mentioned Saturn as a company to which she felt a sense of loyalty. When asked what model Saturn she owned, she replied, "Oh, I don't own one. They haven't yet made the kind of car I want to buy. I can't wait until they do, though, because I really want to be a Saturn owner!" If Saturn's marketing people had been there, they would have died on the spot and gone to brand-equity heaven.

Another example is the United States Automobile Association (USAA), the near-legendary San Antonio-based company whose main product is property and casualty insurance marketed to active and retired U.S. military officers and their families. In an executive education course, USAA was identified by a participant as a company to which he was loyal. Another participant immediately blurted out, "USAA is my insurance company—and I'll tell you how loyal their customers are. I got divorced three years ago. As part of the divorce settlement, my wife was firm on the condition that she could continue as a USAA customer!"

The word "loyalty" captures long-term relationship elements that satisfaction measurement can miss, providing a more complete picture of customers' feelings. However, loyalty traditionally has been defined in terms of its consequences: repurchase intent, actual repurchase, complaint behavior, positive word-of-mouth, share of total purchases, and the like. These measures are *indicators* of loyalty, but do not answer the question, "What *is* loyalty, and how do customers become loyal?"

The easy answer is: customers are loyal when they have consistently been satisfied over time. But much more is involved. To push our thinking to a breakthrough level, we asked ourselves, "What type of company are customers *passionately loyal* about doing business with?" Stretching our minds as far as possible, here is the answer that emerged: "*The type of company customers are passionately loyal about doing business with is a company they can trust to always act in their best interest—without exception.*"

### **The Trust Factor**

This view of loyalty was reflected in the comments of a senior executive of Hewlett Packard who said: "Frankly, with the power of the HP name, we could put it on plenty of new products and generate lots of sales volume. I've been in many meetings in which we've discussed entering new businesses, but decided not to. I never put my finger on it, but I think this concept of acting in the customer's best interest is at the root of what was guiding our thinking. If there is a chance that we would violate the customer trust that we have worked so hard to build, we simply will not enter that business."

Putting a twist on the "customer for life" concept, we believe customers want to find firms they trust enough to qualify as "suppliers for life"—the ultimate test of customer loyalty. If, for some reason, they lost that supplier, they would feel a sense of loss.

### **The Value of Trust**

The HP executive continued, "Our customers' trust is like a family jewel. Our obligation, as the current generation of HP management, is never to waste the value of this precious

asset." After a thoughtful pause, he added, "We hope our competitors never realize the value of customers who feel so strongly about them. And unless they do, they simply cannot appreciate what they are missing!"

More formally, customer trust is a highly valuable *non-balance sheet asset* that HP has invested considerable resources in creating. This asset *appreciates in value* so long as the company continues to offer a stream of fair-priced, high-quality, state-of-the-art products, coupled with terrific service.

Building customer trust grows ever more profitable. As a result of their trust bond with HP, customers migrate toward limiting their choices to one company: HP. Such customers often "take themselves out of the market," not even considering competitive options. Why would they do this? Evaluating other offers takes time, which is costly and in short supply, and history has taught these customers that HP would come out on top in a vendor analysis anyway. Furthermore, this customer asset is uniquely capable of talking to others, powering a referral-generation machine. Here lies a wellspring of brand equity.

The value of trust was demonstrated in a study reported in *HBR* and conducted by Jeffrey Dyer of the University of Pennsylvania's Wharton School and Wujin Chu of the Seoul University School of Management. They studied relationships among the eight largest automobile manufacturers in Japan, South Korea, and the United States and 435 of their suppliers. Their primary objectives were to determine the level of trust between suppliers and manufacturers and the consequences of various trust levels, first in terms of suppliers' estimates of the percentage of their communication time spent negotiating a price or contract or assigning blame for problems and second, the efficiency of manufacturers' purchasing functions. (To determine purchasing efficiency, they asked manufacturers how many employees were in their purchasing functions and the total value of goods purchased from all suppliers. An efficiency indicator was generated by dividing the value of goods purchased by the number of employees in purchasing.)

Here is their definition of trust: "Having the confidence that the other party will not exploit one's vulnerabilities." It is strikingly similar to our definition that is discussed shortly.

The U.S. automaker that suppliers scored lowest in trust spent roughly 50% of face-to-face time negotiating price or assigning blame for problems, as opposed to the automaker scoring highest in trust, where only 25% of the time spent was on these relatively unproductive activities. Similarly, the volume of purchases handled by the highest trust automaker was double that of the manufacturer who was least trusted. Trust relationships pay off in tangible ways.

In a second part of their study, the researchers found that in high-trust relationships, suppliers and manufacturers were far more likely to share confidential information, including (a) suppliers investing in ideas to improve the design and manufacture of components for their automaker customers, and (b) automakers offering resources to help suppliers improve their processes. In an industry where innovativeness is critical, the trust dividend from such activities is large. Again, high-trust relationships can be thought of as off-balance sheet assets that, Dyer and Chu concluded have a tangible and important return.

A good exercise is to question the extent to which your company has created trust-equity assets? Are you building them up—or drawing them down? Do you even know where you stand relative to competitors in this crucial area?

## Moving to Total Trust

Practically every company today is geared up to satisfy its customers. To leapfrog competitors, though, it is time to raise the bar beyond customer satisfaction to a breakthrough level that we define as **total trust**.

Total trust requires going beyond the realm of customer satisfaction and delight. It is the belief, confidence, and faith that a company and its people will be fair, reliable, competent, and ethical in all dealings. *Total trust is the belief that a company and its people would never take opportunistic advantage of customer vulnerabilities.*

The concept of total-trust customer relationships is not merely an exercise in semantics. Rather, it reflects a different view of doing business.

Crutchfield, a mail-order retailer of audio equipment, provides a good example. A customer related to us the story of purchasing a 100-disk CD changer from Crutchfield. After letting the changer sit in the box for a couple of months, she finally got around to hooking it up—only to find that it was broken. Expecting the worst, as Crutchfield's 30-day return window was long past, she called customer service. Not only did the rep cheerfully agree to take back the changer, but he pointed out that the model purchased had been discontinued and replaced by the manufacturer with a new model costing \$150 less. He asked if the customer would prefer the new model and *a sales credit for \$150!* A week later, the amazed customer received the new unit, accompanied by the following letter:

"Dear Ms. Long: Thank you for giving us the opportunity to send you this exchange. It gives us a chance to show you what our Total Satisfaction Guarantee means, and how much we value your business. Sincerely, William Crutchfield, President. "

Guess which company is now on *her* total trust list?

## Trust Defects

Lacking a total-trust strategy, even an outstanding company can unknowingly commit a trust defect and destroy trust equity that might have taken years to build. A "trust defect" is anything that detracts from the trust a customer feels for an organization, its people, and its products. When a customer who has faith in a company makes a purchase and later has reason to regret making that purchase, one or more trust defects have occurred. Erosion of trust equity is the result. The following situation related to us illustrates this point:

"Recently, I received a catalog from a retailer from whom I had purchased a broad range of high quality, fairly priced products for years. The catalog was accompanied by a letter saying that because I was a valued long-term customer, they were sending me this exclusive catalog, not available on the open market, full of special offers on electronics. Being a 'gadgeteer,' I eagerly opened the catalog, particularly since I had been thinking about buying a 900 MHz cordless phone. I quickly spotted one with a full set of features for \$249.95. Based on this firm's reputation and the excellent service I had received from them in the past, my immediate reaction was to dial the 800 number and order it."

"Before dialing, though, I figured I ought to check a catalog from the company where I usually buy electronic equipment. Guess what I found? They didn't carry the phone advertised in the 'special' catalog. Rather, they carried *a newer model of the same phone for \$40 less!* Suddenly it hit me. The first company, a company that I had come to trust, was trying to sell me outdated merchandise at inflated prices! And I was a 'valued, long-term customer?' Right. Given this experience, how could I ever *not doubt* the value of anything this company might try to sell me in the future?"

With one trust defect, that company wiped out equity that had taken who knows how long to build. Who lost? Both the company and the customer. The cost to the company was the

drastic drop in the customer's lifetime sales value and what Xerox called "terrorist" stories that he likely would tell others. The cost to the customer was the loss of a company that had qualified as a supplier-for-life. He felt not only a sense of loss, but of betrayal as well.

It is easy to imagine how this trust defect, which runs against the grain of this particular company's mission and values statements, might have occurred. They were stuck with old merchandise. A marketing person came up with the idea that a direct-mail effort, possibly involving data mining to cull out a list of likely buyers, would be worth a try. "We can't sell these outdated products. Instead of writing them off, let's try a direct-mail effort. Given the low market value of the merchandise, we only need a minuscule response rate to break even."

This analysis missed one important element: the lost profit from future purchases that will not be made by customers who figured out what was going on. An insidious aspect of this situation is that the company will never know the cost: Accounting does not measure the cost of sales not made.

Could this situation have been avoided? Easily, had a total-trust *strategy* been in place and the company understood and internalized the concept of trust defects. When viewed through the lens of building total-trust customer relationships, the direct-mail idea would have been rejected immediately. This is what the HP executive was talking about when describing how the company decided not to enter certain businesses if there was any question of violating their customers' trust.

### Lessons Learned

- Trust defects can happen very easily.
- Trust defects can be very costly, often in ways that only show up indirectly on the profit and loss statement.
- Trust defects that customers equate to "deception with guile" create feelings of betrayal, from which recovery is very difficult, if not impossible.

### Building a Trust Relationship

Returning to the Crutchfield example, we can question whether the telephone rep. made a sound business decision when he took back the obsolete model after the return period was up, gave the customer full credit, and sold the customer a newer model for \$150 less. As customers, our collective instinct says, "Of course!" Easy to say, but if it makes so much sense, why doesn't every company provide this level of customer service? Cost is the obvious answer. Less obvious is managers' failure to understand the value of passionately loyal customers who trust a supplier to act in their best interest.

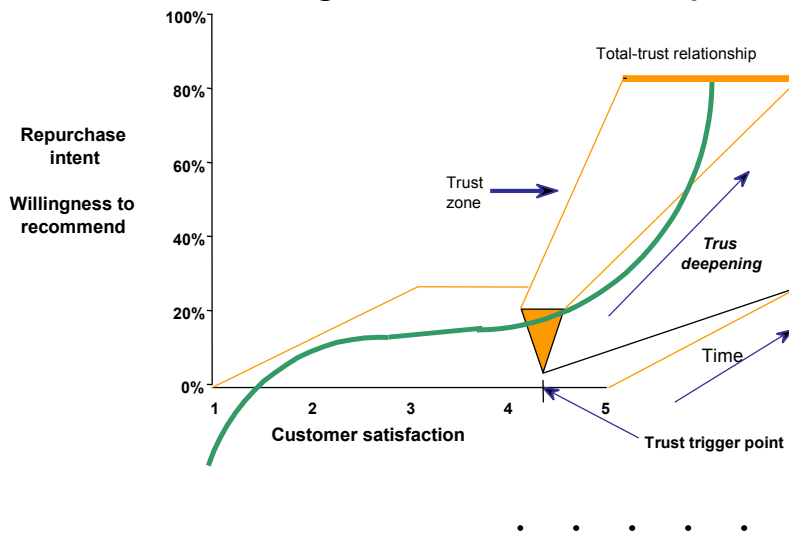
How should this situation be thought of from an economic perspective? The margin forgone on the \$150 in lost sales revenue was an investment Crutchfield made to build a total-trust relationship that would increase the customer's expected lifetime value. Recognize, however, that this investment will pay maximum dividends only *if the company performs well in every other respect*. Otherwise, Crutchfield's service rep might have created a moment of customer delight, but the overall relationship would fall well short of total-trust territory, making Crutchfield a purchase option, not a supplier-for-life. Sadly, most major airlines fall into this trap routinely.

If your company is regarded by customers as a supplier for life, or you aspire to become one, flawless delivery of today's products and services, while laudable, is insufficient. Customer trust includes believing that your firm will provide them with the next generation of products and services, not just today's. Despite not wanting to switch suppliers, they

might feel compelled to do so if you lag competitors in key technologies. When this happens, a trust defect has occurred. Your firm has let down a trusting customer just as much as if you had promised a delivery date that was impossible to meet. They are being forced to buy from another supplier. Taking this broad perspective of trust is crucial to the feasibility of a total-trust strategy. Otherwise “trust myopia” can result, a situation in which company efforts are focused too much on perfecting today’s operations, not innovating to own their customers’ allegiance in the future.

Exhibit 2 depicts how to build a total-trust relationship. To begin building customer trust, customers must first reach a hypothetical “Trust Trigger Point,” a high level of satisfaction, which, if reached, gives trust a chance to develop. At lower satisfaction levels, trust is a moot point. Customers are saying, “You can’t get the basics right, at least not consistently. How could I possibly trust you to be anything but inconsistent?” Only repeated high-satisfaction experiences, represented by the time axis in the graph, will build what we term wide-band, deep-level trust.

**Exhibit 2. Creating new competitive space by building a total trust relationship**



For example, USAA provides auto insurance to military officers who had problems buying insurance because they moved so often. Their passionately loyal customers have learned over the years that the company has the utmost integrity, stands behind everything it sells, and always watches after its customers’ best interests.

USAA is not without challenges, however. The serious downsizing of the U.S. military amounts to downsizing of their market. Further, they need to grow to provide upward career paths for their highly talented workforce. Enter total-trust.

Several years ago, the person in charge of USAA’s new product development was asked what was in the new-product pipeline. She excitedly pulled a letter out of a file, saying, “I’m glad you asked. We just launched a new product. Here is the letter we sent to our policyholders that got the ball rolling.” The letter was stunningly simple. It asked policyholders whether anyone in the family owned a boat and, if so, would they want to purchase boat insurance from USAA. Result? “It turns out that a fair number of our members own boats, and an overwhelming percentage of them said they would like to buy their boat insurance from us. So now we’re going to sell boat insurance!”

USAA is overcoming declines in its target market by getting a bigger share of each customer's business. Today, in addition to boat, homeowners, and personal-property insurance, USAA provides full-service banking, investment brokerage, travel services, retirement communities, and a buying service through which its customers can purchase automobiles, jewelry, floral arrangements, major appliances, electronic and other consumer goods, and even home improvement services! Quite an expansion from USAA's original auto-insurance product line. Common wisdom about brand dilution comes into serious question.

Without having built total-trust relationships, entering the myriad of businesses just described would have been ludicrously risky, expensive, and complex. The total-trust relationship enables USAA to take full advantage of "one-to-one marketing" principles, *creating strategic growth options that otherwise would not exist.*

How much is their trust equity worth? Consider their customers' defection resistance. If they were placed on the Xerox satisfaction graph, they would be clustered in the 5 range—with a virtually impregnable, missile-hardened silo built around them. Few competitors can boast of inducing USAA customers to switch. Indeed, other insurance companies have told us that when their agents' prospecting efforts turn up USAA customers, their general reaction is to say, "Have a nice day," rather than trying to make a sale.

That's the strategic power—the value-creation potential—inherent in a total-trust relationship.

### **Why So Few Trust Firms?**

Given the compelling logic leading to the conclusion that customers want to do business with companies they can trust to act in their best interest, two paradoxical questions arise:

- (1) Why is the list of trust companies so pathetically short? (See *Companies Most Often Meeting the Trust Criteria*, page 00.)
- (2) Why are companies not stampeding to preempt their competitors by creating "act in our customers' best interest" visions together with strategies for capturing this almost certainly unoccupied space in their respective businesses?

We believe an important part of the answer to these questions lies in companies' historical focus on multi-attribute satisfaction models. Here, in simple terms, is how the multi-attribute approach works: Customers belonging to particular market segments are asked to name the attributes most important to them for a particular product or service. Next they are asked to weight these attributes in relative importance. Then they are asked to rate competing products on the attributes. The ratings are multiplied by the weights and the scores summed for each product. The product with the highest score is judged to be the one that will most satisfy customers. There is no question that multi-attribute models have become an invaluable marketing tool, particularly given methodological advances that show causal links flowing from attributes to satisfaction to retention and, finally, to financial performance. However, multi-attribute models fall short in capturing the wide breadth of attributes that exist in a trust relationship. Consider the following interaction: A man is looking for a blue suit in a major department store. He is greeted by a salesperson. The salesperson shows him a suit with a price tag that makes the customer's eyes bulge and stomach sink. "Is that the only suit you have?" he asks incredulously. "Well, if price is a problem, I have other blue suits that cost less," responds the salesperson. The customer eventually leaves having purchased a suit with which he is pleased, at a price he is comfortable with. But he probably also leaves with a lingering sense that he was exploited by a salesperson more concerned about his wallet than with understanding and meeting his needs.

A typical satisfaction survey might ask him whether he was greeted immediately, the extent

to which the salesperson answered his questions adequately, whether the store's suit selection was satisfactory, whether prices were fair, and his satisfaction with the overall experience. In this situation, his ratings probably would fall at the high end of the satisfaction scale. But the survey missed important relationship-related information. The odds are infinitesimally small that the survey would include a question like, "Do you feel the salesperson was more interested in your well-being or in making a large sale and commission?" Without understanding and measuring sometimes subtle, but-always crucial, trust-related aspects of customer perceptions, "trust-defects" might be recurring repeatedly with customers, severely undermining the department store's efforts to develop the increasingly crucial long-term customer relationships in this era of "category killer" stores and Internet-based shopping. Organizations like Nordstrom's and Steinmart (rated #1 and #2 in *Consumer Reports* 1998 rating of department stores' value) understand very well the need to create trust relationships with their customers to ensure their long-term loyalty.

When was the last time you were asked to fill out or provided your customers with a satisfaction survey that included questions like these?

- Do you feel that X-Co cares more about you or the money in your wallet?
- To what extent would you feel a sense of loss if X-Co went out of business?
- If X-Co were able to lower its costs, do you think they would seek to build your trust by sharing the savings with you—or would they try to use the savings solely to boost their profits?
- To what extent do you think X-Co is sincerely concerned about your complaints?
- If X-Co thought of a way to raise prices without you noticing, how inclined do you think they would be to do so?

Further, the multi-attribute approach to developing customer relationships is limited by the extent to which it misses important trust attributes. Some might respond, "Ah-ha! So the only problem with measuring satisfaction using a multi-attribute modeling approach is that it needs to include **all** the variables relevant to a trust relationship." In theory, this is indeed the case. But, in practice, the number of variables involved in trust relationships, especially in business-to-business situations where many individuals interact, is huge! Further, a multi-attribute model does not capture the rich, dynamic process of *relationship development*. For example, would you share your innermost secrets with someone on a first date? Probably not. Trust building activities, like sharing highly confidential information (e.g., trade secrets), generally only occur after a certain level of trust already has been developed. Employing a total-trust approach offers insights into relationship-development processes that a customer satisfaction measurement approach lacks.

### **Managing for Total Trust**

Understanding trust-building processes will enable your organization to examine its existing processes and systems for alignment with a total-trust strategy. Are you offering the product and relationship benefits your customers want? Do you share similar core values with your customers? Do you have the appropriate communication channels in place, especially to handle the conflicts that inevitably arise? Are you making sufficient investments in your customer relationships? How do you handle product or service failure? We will look at these trust-building processes in more detail here and in the accompanying case study, "*A Framework for Building Trust Relationships*," page 20.

- **Measuring and managing relationship benefits.** The greater the relationship benefits

a customer receives for a given price, the stronger the potential for a trust relationship. Customer satisfaction measurement and management systems are an excellent means by which to gauge how well your product and service features are meeting the needs of your customers, but they are only a start. Trust-relationship strength metrics must be put in place as well. However, you must keep abreast not only of what your customers want today, but also what they will want tomorrow. Taking a radical view, we believe a trust defect has occurred if a customer feels forced to switch to a competitor because your firm has not kept up in terms of providing innovative products and services. This is especially true if your company has developed a trust relationship with them. You will have created a situation in which your customer's risk increases because they have far less experience with the new supplier, the new supplier's values might not be congruent with theirs, and/or their recovery ability might prove to be poor. Bottom line: You forced a customer who trusted you to go elsewhere—which is not what they wanted to do.

- **Building shared values and forgoing opportunistic behavior.** Customers recognize the importance of dealing with firms whose business practices are ethically sound, especially in industries where customer purchase risk is highest. The extent to which your company is perceived as one that would not take opportunistic advantage of customer's vulnerabilities affects your opportunity to build trust relationships. This can be a particular challenge if your compensation scheme motivates your salesforce to *not* act in a way that is in your customers' best interests. Insurance companies, for example, have fallen prey to their own failure to align salesforce compensation with their desire to create long-term customer relationships. The result is all too often, customer *distrust*, the number one customer concern in industry studies.

*A Caveat: Do your customers value trust relationships?* There can be no denying that some customers will be unwilling to build trust relationships. To the extent this is the case, your scarce resources would be better used elsewhere. Do any of these comments sound familiar?

- "Our customers talk about creating and maintaining trust relationships, but they inevitably hammer us on price, playing us against other suppliers. And once we think we have a deal, they just ask for more!"
- "Success in my business is making the list of qualified suppliers and then winning the business with the lowest bid."
- "What keeps customers in my business is offering the most advanced and innovative performance features. How can they trust my company to always be at the leading edge of technology? They can't, so they constantly monitor competitors' offerings."

Be careful about your assumptions, however. Often, a company's perceptions about customers tend to be skewed by the vocal and difficult few. Consider breaking the existing mindset in your industry and becoming a total-trust provider for at least certain customers. You may have customers who value total-trust relationships and would be willing to "take themselves out of the market"—if they only knew where or how to start.

- **Establishing effective communication.** Customers need information. They need it before they buy, when they buy, and after they buy. Take, for example, financial services firms and their representatives. How important is communication when the stock market is going down? Answer: Extremely important, and every call made to a customer in such a situation is an investment in a trust relationship. But many financial advisers shy away from communicating with customers during these difficult times, missing *windows of trust-building opportunity*.

- **Making relationship investments.** When a supplier makes a relationship investment of any kind on behalf of the customer (e.g., design engineering, problem identification, R&D), two trust-related phenomena are occurring. First, to the extent that the supplier's actions are interpreted as well-intentioned, meaningful efforts to add value, a customer *ought* to be favorably impressed. Second, willingly taking on the risk of investing resources and possibly getting nothing in return makes the supplier vulnerable. When handled well, this type of activity *is the exact opposite of opportunistic behavior*, sending a strong message about the firm's values, in particular how it treats its customers. Obviously, an organization has to be shrewd about where to make relationship investments—and to make sure that when it does; it receives credit for its efforts and creates "trust equity."
- **Handling problem recovery.** A supplier trying to build total-trust relationships must go to great lengths to handle problems when they arise. Going a step further, no better opportunity to create trust exists than when a supplier helps a customer recover from a problem *not caused by the supplier*. A trust-creation multiplier effect kicks in. By helping customers through problems they create for themselves or that were created by other suppliers, trust equity shoots up.

When the supplier causes the original problem, the situation is more complex, but still manageable. For example, Caremark International, an Illinois-based health care company acquired by MedPartners in 1996, is an example of a company that has embarked on a total-trust strategy after committing several grievous trust defects. In 1995, the company's home-health division was found guilty of illegal payment practices to physicians. Caremark's response was to develop and implement a bold, aggressive effort actively led by senior management to identify and eliminate trust defects, not only to prevent future legal problems, but also to create an organization *fully focused on regaining its customers' trust*. First, they established a board-level compliance and ethics committee consisting of two outside and two inside directors. Further, the leaders of each business group were made the compliance officers for their respective parts of the company; each supported by a new ethics manager. The business group leaders work with their ethics coordinators to provide the compliance and ethics committee with regular updates about what they are doing to build internal and external trust in their businesses. Additionally, a corporate-level vice president was appointed to direct the entire program. Clearly, Caremark was not about to let their efforts fail through a lack of management commitment!

To drive the message throughout the organization, a comprehensive training program was developed and taught by 140 "integrity coordinators" who were trained to deliver the program to all 11,000 Caremark employees, in groups no larger than 25. All training materials, including videotapes, were translated into six foreign languages, enabling worldwide rollout. The goal was for every employee to (a) commit philosophically to a total-trust strategy and (b) to apply its principles in the course of everyday activities.

The common thread tying together the pieces of Caremark's effort was an acronym, "T.R.U.S.T.," which stands for: **T**hink about the situation objectively; **R**ecognize and analyze motivations; **U**nderstand Caremark's policy and applicable laws; **S**atisfy the "headline test" with your decision; and **T**ake responsibility for your actions. Whereas many acquiring firms would be quick to throttle back such a program, upon acquiring Caremark, MedPartners saw sufficient value in their trust-building process that they decided to implement it throughout the entire combined organization.

### More Barriers

Many companies lack a guiding framework for becoming a trust-based organization. Leaders who feel a total-trust strategy is right for their firms often are stymied when it comes to making it happen. They say, "We want to be the L.L. Bean of our industry. Look at our vision statement!" Their vision and values statements have words like honesty, integrity,

trust, and respect embedded in them, but these words never become more than decorative ornaments.

Furthermore, many managers, whose careers have been played by “the old rules,” have little idea of how to build trust with their customers and within their organization. Even if they rationally believe the total-trust approach to be right for their firms, their behavior, and consequently their employees’ behavior, remains unchanged. Their inability to understand the new rules renders them incapable of acting differently! Lacking a guiding framework for creating a trust-based organization, those well-intentioned companies stay mired in the mud of mediocrity. Over time, cynicism results, and the result is the opposite of what management intended: distrust is created. (See, “A Framework for Developing Trust Relationships,” see page 20)

### **Choices for the Future**

Leaders of companies for which total trust holds significant potential have a choice. They can view the total-trust concept a competitive frontier, believing that to be regarded by customers as a trust company will become a table stake in many businesses 15 to 20 years hence. If so, what better time to embrace the challenge, in the process setting new standards for their industries? Or, they can view it cynically as pie-in-the-sky thinking that ignores the harsh realities involved in running a business.

While other factors—timing, resources, competing priorities, and other issues—clearly must be considered before a company decides to explore, reject, or put on hold the idea of a total-trust strategy, the overriding factor is that *customers* unanimously tell us they would like to do business with companies that they trust to act in their best interest.

Ignoring the voice of the customer is unwise. And, assuming your company already has proclaimed its dedication to such qualities as honesty and integrity, what makes more sense: Giving these words lip service, dropping them from your vision and values statements, or using them as exemplars of how you intend to lead your organization into the 21<sup>st</sup> century?

## Companies Most Often Meeting the Trust Criteria

We asked participants in over 100 worldwide business education programs to answer this question: "What companies can you think of that meet—or even come close to meeting—the criterion of always acting in the customer's best interest?" The following are the names that crop up frequently. Obviously, the list is not inclusive and reflects the names of large U.S. corporations that consumers generally are familiar with. Missing are high-trust companies in the B-to-B space. Also missing, but for a different reason, are non-U.S. and Canadian companies. We have been stunned at the lack of companies cited when the question has been asked in international settings. In the U.K., for example, not one large company was mentioned despite efforts to make it easy for names to be surfaced--in five seminars! In every country, however, many small firms are mentioned, reflecting, we believe the closeness of owners to customers and personal bonds that exist. One person in Spain, for example, raved about a tire dealer, to the extent that everyone in the audience was writing the name down and asking where it was located! Then we asked the group, "Assuming that this firm is as good as its alleged and that you felt as strong about it as Margarita. What other things would you immediately be interested in buying from them if they were to open a store?" The resulting list was a long one, testifying both to the tremendous equity a total-trust reputation holds and the low risk growth options that open up. The crucial point is that people struggle mightily when asked what companies they trust to act in their best interest. The names do not flow quickly. Conversely, when asked to list companies they feel they cannot trust, one must take notes fast.

- Caterpillar
- Corning
- Disney
- Federal Express
- Fisher-Price
- Four Seasons Hotels
- Hampton Inn
- Hewlett-Packard
- Home Depot
- John Deere
- Johnson & Johnson
- L.L. Bean
- Land's End
- Lexus
- Marks & Spencer
- Midwest Express
- Nordstrom
- PeopleSoft
- Procter & Gamble
- Ritz-Carlton Hotels
- Saturn
- Southwest Airlines
- USAA
- Xerox

### **Additional Reading**

Jones, Thomas O. and W. Earl Sasser, Jr. "Why Satisfied Customers Defect," *Harvard Business Review* (November-December 1995), pp. 88-99.

Landry, John T. Review of study done by Jeffrey Dyer and Wujin Chu. "Supply Chain Management." *Harvard Business Review* (January-February 1998), pp. 18-9.

Morgan, Robert M. and Shelby D. Hunt. "The Commitment-Trust Theory of Relationship Marketing" *Journal of Marketing* Vol. 58 (July 1994), pp. 20-38.

### **About the Authors**

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**Michael D. Johnson** is the Dean of the School of Hotel Administration at Cornell University. Previously, he was the D. Maynard Phelps professor of marketing, University of Michigan Business School and an academic adviser to both Spire Group, Ltd. and CTcon (Consulting and Training in Controlling) GmbH (Vallendar, Germany). Michael teaches in a variety of Michigan's executive education seminars, including the Daewoo Global Executive Program, the Management Development Program, and the Strategic Marketing Planning Program (United States, Europe, and Asia). Along with his colleagues in Michigan's National Quality Research Center, he developed both the Swedish Customer Satisfaction Barometer (SCSB) and the American Customer Satisfaction Index (ACSI). Michael is the author of two books, *Customer Orientation and Market Action* and *Quality, Satisfaction, and Retention: Implications for the Automotive Industry* (co-authored by Andreas Herrman, Frank Huber, and Anders Gustafsson). In addition, he has published over 60 academic articles, book chapters, and industry reports and serves on the editorial board of *Marketing Letters*, *International Journal of Research in Marketing*, *Journal of Consumer Research*, and *Journal of Service Research*. As an industry consultant, his clients include Anheuser-Busch, Duke Power Company, General Motors, GTE, Promus Hotel Corp., and TC D ebica (Poland). Michael received his bachelor's degree from the University of Wisconsin-Madison and his MBA and doctorate from the University of Chicago.

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**Authors' Note: Elizabeth Long**, currently a doctoral student in marketing at the Harvard Business School, assisted greatly in the research and final preparation of this article.

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