Trust is vital to a functioning economy and resilient society. Without trust, transactions between people, businesses and others won’t happen. Yet trust itself isn’t something that can be bought or sold. It must be earned through time and effort. When a business does that, it wins customers’ loyalty – from praise in good times to patience in bad. That provides financial stability and can encourage growth.

When the economy revolved around trades of goods and services among neighbors, trust was easier to establish. As the modern market evolved, transactions increasingly involved diverse partners and stakeholders, with people doing business across borders and with parties who have different views and motivations.

As this circle expanded, trust became depersonalized. At the same time, companies gained more and more information about their customers and often shared that information within their ecosystems, increasing the potential for trust to be violated.

“When trust is shaken, individuals pull back and the market system contracts. Where trust grows, individual energy and creativity are unleashed and the system grows. In Adam Smith’s vision of humankind’s progress, trust is the central theme. Economic systems depend on trust.”

The need for trust mechanisms

To maintain trust among partners, different “trust mechanisms” emerged – legal protections, institutional solutions, technological advances and new norms of behavior. Some mechanisms were responses to market breakdowns, while others were the result of new innovations. In each case, mechanisms have been anchored by the basic principles of trust.

Today, trust is both under fire and in demand. Some key institutions, such as banks and government, have seen a decline in trust among the public. From the Occupy Wall Street movement to political campaigns, there’s an enduring populism against entrenched capitalist institutions.

This lack of trust is exacerbated in the digital world. As individuals, we’re bombarded online by schemes from questionable characters from all corners of the world, hoping we’ll blindly click a link or attachment. Meanwhile, companies must defend against data breaches and cyber-attacks, where as many as millions of customers can be affected instantly.

Trust benefits and bottom-line impact

Trust gives businesses confidence, which encourages innovation. Trust also is vital to a company’s reputation, and the damage resulting from a lack of trust can be swift and huge. In the less competitive, less transparent business environments of decades past, whether a company was trusted didn’t necessarily affect the bottom line.

Now the consequences from a breakdown in trust go beyond news headlines and can affect a company’s financial performance. That, in turn, can turn up the pressure from shareholders and investors. In short, it’s never been more important for companies to manage risks to trust, and for that risk strategy to be integrated into the business strategy.

“Innovation suffers under distrust. The widespread belief that business is warfare is false and counterproductive. The challenge, especially in innovation, is to carefully seek mutual advantage in novel combinations of competencies from different partners, in relationships that are sufficiently durable to recoup specific investments in mutual understanding, trust and collaboration.”

The role of trust in global issues

Trust also plays a crucial role in global issues that affect businesses and society as a whole. Technological breakthroughs are improving lives but also can endanger privacy. Climate change demands new collaboration among nations and corporations. Economic power continues to shift to emerging markets. Urbanization increases pressure on infrastructure and the social fabric of cities. The safety of our food and water supplies is under scrutiny, especially in developing countries. Through all of this, the world’s population continues to grow, diversify and live longer than ever, requiring trust across cultures and generations.

New trust mechanisms can reduce risk and drive growth

This critical time poses a fresh challenge. We need to identify new trust mechanisms that can help protect people, businesses and economies from significant financial losses and other lasting damage. These mechanisms can foster trust by reducing potential risks within business, improving security in the digital world, and bringing more transparency to industries that are essential for enabling growth and prosperity.

Contacts

To have a deeper conversation about how a holistic risk management approach can help establish you as a trusted business partner, please don’t hesitate to contact us.

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