

Excerpted with permission of the publisher John Wiley & Sons, Inc. from

How

Why How We Do Anything Means Everything...in Business (and in Life)

Copyright (c) 2007 by Dov L. Seidman. This book is available at all bookstores, online booksellers and from the Wiley web site at www.wiley.com, or call 1-800-225-5945.

John Wiley & Sons, Inc.



Trust

*For it is mutual trust, even more than mutual interest
that holds human associations together. Our friends
seldom profit us but they make us feel safe.*

—H. L. Mencken

A few years ago, in the early days of the blogging phenomenon, a New York-based web designer named Jason Kottke told a fascinating story on his blog, Kottke.org, about his experience with a coffee-and-doughnuts street vendor he called Ralph.

“I stepped up to the window, ordered a glazed donut (75 cents),” Kottke writes, “and when he handed it to me, I handed a dollar bill back through the window. Ralph motioned to the pile of change scattered on the counter and hurried on to the next customer, yelling ‘Next!’ over my shoulder. I put the bill down and grabbed a quarter from the pile.” Kottke was intrigued by this behavior, so he decided to investigate. “I walked a few steps away and turned around to watch the interaction between this business and its customers. For five minutes, everyone either threw down exact change or made their own change without any notice from Ralph; he was just too busy pouring coffee or retrieving crullers to pay any attention to the money situation.”¹

As he observed and considered what may be gained or lost by this unusual policy, Kottke noticed that Ralph was serving an extraordinary number of customers. To confirm this suspicion, he went and watched two other similar vendors nearby. On average, both spent twice as much time with each customer and served half as many in a given time period.

Kottke is no economist, but it was immediately apparent to him “that Ralph trusts his customers, and that they both appreciate and return that sense of trust (I know I do).” He also noticed something that often eludes us. “When an environment of trust is created,” he writes, “good things start happening. Ralph can serve twice as many customers. People get their coffee in half the time. Due to this time-saving, people become regulars. Regulars provide Ralph’s business with stability, a good reputation, and with customers who have an interest in making correct change (to keep the line moving and keep Ralph in business). Lots of customers who make correct change increase Ralph’s profit margin. Etc. Etc.”

Kottke observed, in a firsthand anecdotal way, a quantification of trust in action. Because Ralph trusts his customers to make honest change, he is able to serve far more of them than his competitors serve. In economic terms, Ralph reduced his transaction costs by substituting trust for the labor of making change. A cost-benefit analysis would probably reveal that what he loses in dishonesty or error he more than makes up for in gross sales volume. Additionally, although increased volume results in less of the person-to-person service time that you would suspect is necessary to build customer loyalty, Ralph’s customer loyalty seems anecdotally to have increased. The introduction of trust had an unintended consequence for his business: It made customers more likely to get their daily doughnut fix from him rather than his competitor down the block.

Trust is a funny thing, one of those soft things that we often rush by. What’s not so funny is how often it lies at the center of our challenges and opportunities. “Trust is like the air we breathe,” Warren Buffett said. “When it’s present, nobody really notices. But when it’s absent, everybody notices.”²² That is because trust allows us to function in times of uncertainty. When the Certainty Gap—that space between the unpredictable nature of the world and our ideal vision of stability—grows, we look for something to fill it. That something is *trust*. Trust calms the fears that uncertainty breeds. In times of high uncertainty, therefore, we pay more attention to the source of trust: human con-

duct—HOW we do what we do. Trust becomes, more vitally than ever, the currency of human exchange.

Business has long known about the benefits of trust, but absent any real metrics or data found itself at a loss to be able to do anything about it. Similarly, we as individuals innately seek trusting environments and trusting relationships in order to enrich our lives, although we often don't give much conscious thought to how to create them.

THE SOFT MADE HARD

We have two ways of calculating the value of trust: subjectively (how it makes us feel) and objectively (in dollars and cents). Subjectively, almost all of us would rather live and work in a world where the Certainty Gap is filled with trust, predictability is high, and we feel safe and secure. So we accept *prima facie* that trust plays an important role in the way we live our lives. Trust makes us feel safe. It allows us to function and thrive in an uncertain world. To fully understand the value of trust in business, however, we must begin to quantify it objectively, to move it from the realm of feelings to the realm of observable benefit. Trust, for instance, allows us to rely on each other, to divide up labor and form teams knowing that each will do his or her part, and to share confidences with others. Without trust, how could you send a confidential strategy e-mail to a partner and know that it will remain confidential? Business, for its part, has long suspected that trust could, in fact, be objectively quantified, but it is only recently that researchers have done so. Their findings reveal a startling truth: Trust, to use an old cliché, makes dollars *and* sense.

In a groundbreaking 2002 study, Professors Jeffrey H. Dyer of the Marriott School at Brigham Young University and Wujin Chu of the College of Business Administration at Seoul National University proved empirically what the blogger Jason Kottke observed on the streets of New York. Dyer and Chu surveyed almost 350 buyer/supplier relationships involving eight automakers in the United States, Japan, and South Korea and found a direct, and dramatic, relationship between trust and transaction costs. The least trusted buyer incurred procurement costs *six times* higher than the most trusted: same parts; same sorts of transactions; six times more expensive. These additional costs came from the added resources that went into the selection, negotiation, and compliance costs of