TRUST & TRANSPARENCY

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IRRATIONAL LABS

Led by famed behavioral economist Dr. Dan Ariely and founder Kristen Berman, Irrational Labs is a nonprofit that applies behavioral economics findings to product, marketing, and organizational design problems. By understanding human decision making and motivations, Irrational Labs help companies create compelling value propositions, grow their customer base and keep those customers engaged.

METLIFE FOUNDATION

Since its founding in 1976, MetLife Foundation has provided more than $530 million in grants and $100 million in program-related investments to nonprofit organizations. The MetLife Foundation believes that affordable, accessible and well-designed financial services can transform the lives of those in need, and have committed $200 million over the next five years to advancing this effort around the world. The foundation has built its vision for global financial inclusion on three powerful pillars: Access and Knowledge, Access to Services and Access to Insights.
I. OVERVIEW & GOAL

Amidst a string of governmental and business scandals, Americans’ trust in institutions is declining. These declining levels of trust have deep implications on how businesses interact with their constituents and consumers. As a result of these alarming trends, this whitepaper hopes to help companies proactively manage their customers’ trust.

The goal of this whitepaper is five-fold:

1. Demonstrate that current trust levels in business and financial institutions are declining
2. Highlight the importance of building, maintaining and rebuilding trust
3. Illustrate how increasing transparency of effort helps increase trust based on evidence from existing academic research
4. Explain the importance of showing intentionality
5. Provide practical prototypes on how to increase transparency

Irrational Labs hopes that this whitepaper serves as a tool to start the conversation and provide practical solutions on how to build, maintain, or rebuild trust.
II. DECLINING TRUST LEVELS

Companies like Lyft and Airbnb have made it socially acceptable to trust strangers with users’ cars and homes. Tinder and Hinge have made it socially acceptable to meet new strangers on a regular basis. Taskrabbit allows users to hire strangers to do basic tasks. It seems that Americans trust each other more and more.

However, this trust is not extending to businesses or financial institutions.

Americans’ trust in businesses and financial institutions has steadily declined in recent years (Stevenson and Wolfers 2011). While it’s difficult to isolate what specific variables have led to this decline in trust, we can surmise that recent scandals like the Bernie-Madoff’s Ponzi scheme, and the large bank bailouts during the Great Recession have not helped reverse this trend.

Americans’ trust in big businesses has also declined. In 2014, only 21% of Americans reported to having “a great deal” or “quite a lot” of confidence in big businesses compared to 34% in 1975. Furthermore, while trust levels increased slightly after the Great Recession, recent data suggest that the trend is reversing. In addition, trust levels have not yet returned to pre-Great Recession levels (Gallup 2014).

Figure 1

![Americans' Trust in Big Businesses](image)

Source: Gallup, Inc.
FINANCIAL SERVICES

Within business, the financial services industry faces the most challenges with regards to gaining trust. According to the Edelman Global Trust Survey, in 2014, banks continue to trail all other industries in trust. Financial Services’ “last place” ranking has not changed in the last five years (Edelman 2014).

According to the 2012 General Social Survey, the National Opinion Research Center’s poll of American attitudes, only 12% of respondents had a great deal of confidence in banks and financial institutions, down from 32% in 1972.

Figure 2

![Graph: Americans' Trust in Banks and Financial Institutions]

*Source: National Opinion Research Center*

Consumers’ relationship with financial institutions is complex, especially because there is an imbalance of power. Financial institutions have an incredible amount of power over their consumers; they manage consumers’ bank accounts, retirement funds, mortgages, student loans, etc.

RECENT SCANDALS

Forex Scandal (2014)

A group of investment banks colluded for at least a decade to manipulate foreign exchange rates for their own financial gain.

LIBOR Scandal (2013)

Libor interest rates are the standard used to determine interbank lending. A group of banks were discovered to have manipulated those rates to profit on select trades.

UBS Money Laundering (2012)

SBC’s lax anti-money laundering policies allowed Mexican drug money and Iranian terrorist to enter the U.S. and gain access to U.S. dollar liquidity over the past few years.
With this large imbalance of power, it is hard to build trust. As Professor Henry Farrell summarizes, asymmetries of power can make it difficult to build trust (although not impossible). For example, how likely are you to trust someone that has complete and utter power over you? The answer is most likely very little.

Consumers have a very similar feeling with their banking institutions. While consumers can choose to change banking relationships, it is a difficult and timely process. In fact, consumers change their 401K providers less than one time over their lifetime.

Given the importance of financial institutions in the economy and their pivotal role in consumers’ everyday life, these decreasing trust levels are alarming.

Financial services is the LEAST trusted industry
Imagine a world where you did not trust anyone. Not even your family. What would that world look like? Would you ever engage in a financial transaction? How would you feel? Most likely, this would be a horrible world.

Trust is a critical component of any functioning society. Kenneth Arrow, winner of the 1972 Nobel Prize in Economics, argued that trust is an “important lubricant of a social system” and that “virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time” (Arrow 1974; Arrow 1972). According to Alan VanderMolen, the Vice-Chairman of Edelman, the company that has been conducting the Edelman Global Trust Survey for the last 14 years, the main reason he cares about trust is because “trust is a leading indicator. Unlike reputation, which is the sum of perceptions of past behaviors, trust is a leading indicator of how stakeholders believe a business and/or its leaders will behave in the future.”

Building trust with consumers is pivotal to any organizations’ business success. As summarized by Kang and Hustvedt (2014), researchers have found trust to be a critical predictor of brand loyalty, consumer retention, and purchase intention (Chaudhuri and Holbrook 2001; Erdem and Swait 2004; Ranaweera and Prabhu 2003). Chaudhuri and Holbrook (2001) found that along with emotion, trust was the most significant predictors of brand loyalty. Ranaweera and Prabhu (2003), in their study of the relationship of trust and consumer satisfaction, concluded that trust is a distinct driver of customer retention and should be managed separately from consumer satisfaction. Erdem and Swait (2004) found that consumers’ trustworthiness of a brand had a greater impact on their consideration to purchase from the brand than perceived corporate expertise. Given these findings, it is important for organizations to actively manage their customers’ trust.

Consumer trust is a predictor of brand loyalty, consumer retention, and purchase intention.
DEFINITION OF TRUST

While trust has been studied across almost every academic discipline, from economics to psychology, there is not a standard definition of trust. Given this papers’ focus on business-consumer relations, we use Morgan and Hunt’s definition of trust: “Confidence in an exchange’s partner’s reliability and integrity” (Morgan and Hunt 1994). This definition is one of the most cited definitions of trust (Castaldo et al 2010).

Morgan and Hunt’s definition boils trust down to two crucial components: reliability and integrity. Morgan and Hunt explain that reliability deals with the consistency, competency, honesty, and fairness of past actions and that integrity deals with the intentionality of the organization (Morgan and Hunt 1994). In a similar vein, a meta-analysis of research on trust in a business context concludes that trust involves reliability as well as integrity (Castaldo et al 2010). Integrity deals with an organization's intentions of being fair.
IV. TRANSPARENCY & TRUST

“Lack of transparency is necessary for businesses.”

“Lack of transparency helps businesses maintain their competitive advantage, keep trade secrets, and achieve high margins.”

These are outdated ideas. Researchers have shown that businesses with the highest reporting transparency are more likely to have higher performance (Gunny 2005).

One shining example is the Surgery Center of Oklahoma. The Center provides a complete pricing list for every procedure on line. This is a starkly different approach to most surgery centers, where surgery prices are typically hidden until after the surgery. However, according to the center’s officials, they have seen a large uptick in demand with patients coming from out-of-state and internationally. Their increasing in demand is not a result of the center providing discounts for surgery; the center does not even accept Medicaid or Medicare. The center’s increase in demand is a direct result of their increase in transparency.

Figure 4

Source: Surgery Center of Oklahoma
In addition to increasing business performance, increasing transparency reinforces existing trust levels and mitigates loss of trust (Bandsuch et al. 2008; Rawlins 2008). In his 2008 correlation and regression analysis of employee perceptions of trust and transparency, Rawlins provides strong evidence that trust and transparency are positively related. As employee perceptions of organizational transparency increased so did trust in the organization.

The relationship between trust and transparency extends beyond the employee-employer relationship. According to a study conducted by Kang and Hustvedt, transparency directly affects consumers’ trust and impact towards a corporation (2014).

Another study that examined the effect of transparency on trust concluded that organizations that use transparent messages are viewed as more trustworthy than those that do not use transparent messages after a crisis. The study provides evidence that transparency is a useful tool not only in building trust, but also in rebuilding trust. The study also showed that the organization’s reputation regarding transparency also mattered. Organizations with a reputation of transparency were viewed as more trustworthy than those organizations without a reputation of transparency, even though all organizations used the same transparent messaging in response to the crisis (Auger 2014).

Consumers are actively seeking transparency from businesses. According to the 2014 Edelman Global Trust Survey, over 82% of the respondents stated that to build trust CEOs must be transparent. Transparency was rated above other trust generating actions, such as telling the truth, engaging with employees, and being visible during challenging times.
Given transparency’s role in increasing trust, it is important for business leaders to understand how to manage transparency. Often times, corporations are reactive and let regulatory bodies dictate their transparency strategy. As such, transparency is often thought of as an ethical oversight (Buell and Norton 2013). It is time for managers to stop this reactive strategy and proactive work to increase transparency.

**TRANSPARENCY AS A TOOL TO REBUILD TRUST IN THE CAPITAL MARKETS**

**Great Depression**
Congress passed the Securities Act of 1934, requiring issuers of new securities to disclose all materials that a reasonable investor would require to make an investment.

**Enron / WorldCom**
Congress passed the Sarbanes–Oxley Act of 2002, which, among other things, increased transparency and disclosure requirements for corporations.

**Great Recession**
Congress passed the Dodd–Frank Financial Reform Act of 2010. One of the main goals of the Act was to increase transparency.

**TRANSPARENCY CAVEAT**
It is important to understand that not ALL transparency is going to have a positive impact. If the information shared is deemed **unfair**, **incomprehensible**, or **untimely**, there will be little transparency benefit.

**BANK FEE EXAMPLE**
Whenever banks are transparent about their banking fees, they get a lot of backlash, not because they are being transparent, but because the fees are deemed unfair. Remember when Bank of America started charging for checking accounts?
A growing body of research has focused on one transparency strategy: the transparency of effort. This strategy focuses on showing transparency at the time that services are being delivered to consumers.

Transparency of effort relates to one of the pillars of trust: reliability. According to Morgan and Hunt, reliability deals with the consistency, competency, honesty, and fairness of past actions (1994). Transparency of effort works to increase the perceptions of reliability. It helps consumers understand past and current actions that the business is doing to provide a product or service.

The next section highlights the benefits of increasing transparency of effort and provides specific examples of how organizations can implement this strategy.
V. TRANSPARENCY OF EFFORT

Imagine you are locked out of your home. There is no spare key and you have no choice but to call a locksmith. The locksmith arrives at your house and starts working on opening the lock. He analyzes the lock, measures the door, breaks the lock, finds a replacement lock, and installs a new one. Sweating from all the hard work, the locksmith finally lets you in. The entire ordeal takes two hours.

How much would you pay the locksmith? $50? $100? $150? $200?

Now, imagine another scenario. A different locksmith arrives and opens the door in less than two minutes.

How much would you pay the locksmith now?

In a completely rational world, we would value the second locksmith more and would be willing to pay him more for services. He delivered the same result in a shorter amount of time.

However, if you are like most people, you would pay the first locksmith more. Why? Because we value the effort we see. It is difficult for us to pay for services that seem effortless. We forget that it most have taken the second locksmith years of practice and hard work to be able to open locks in such a short time frame.

In the quest to increase efficiency, many corporations have forgotten about the importance of showing effort. As corporations have worked to make services more available, they have concealed the amount of effort that goes into providing that product of service. For banks, consumers no longer have to visually see the effort and the labor that goes in to depositing a check. Consumers can now deposit checks with a smartphone, without the need of a bank teller. This innovation has improved efficiency but has worked to vastly undermine the perceptions of effort.

Consumers’ perceptions of effort have meaningful implications on trust and perceptions towards an organization (Kang and Hustvedt 2014; Buell and Norton 2013). Transparency of effort is also known as operational
transparency. Buell and Norton describe operational transparency as “how operating processes are revealed to consumers” (2011, 2013).

Buell and Norton tested the impact of operational transparency on participants’ attitudes towards the government, including trust. In the experiment, participants were asked to interact with a website that tallied the number of open, new and recently closed service requests to fix potholes and broken streetlamps in Boston. Some participants just saw a tally of the requests. Other participants saw a visual representation of the tallies, increasing the saliency of effort (operational transparency) (2013).

Participants were then asked to answer questions from the Pew Research Center for the People and the Press Trust in Government Survey. The researchers found that participants that were shown operational transparency expressed more positive attitudes towards the government, including trust. These participants also expressed greater support for maintaining or expanding the scale of government programs. Given these findings, the authors push for greater operational transparency during the delivery of government services, not after.

Figure 6

Source: Buell and Norton, 2013

Aside from increasing trust, operational transparency can help improve consumers’ perceptions of value, willingness to pay, and satisfaction, even as
the actual quality of the product remained the same (Buell and Norton 2011, Morales 2005; Mohr and Bitner 1995). For example, when travel websites provide a visual representation of the search effort being exerted on a customer’s behalf, customers report higher perceptions of service value (Buell and Norton 2011). In 2005, Morales found consumers’ willingness to pay increases when they perceive that more effort has been exerted by an organization. In addition, using hypothetical telephone service encounters, Mohr and Bitner showed that increasing the perception of effort by a customer service rep to solve an issue increased customer satisfaction. It is important to note that across all of these experiments, the actual service or product remained unchanged.

The effort cues highlighted to increase operational transparency in the aforementioned experiments are not large in scale. In Buell and Norton’s travel website experiment, the effort cues were simple: including the number of how many travel sites the algorithm is searching, enumerating how many results are found, and creating a visual image of “scrolling” (2011).

Figure 7

![Figure 7](image)

Source: Buell and Norton, 2011

These small effort cues worked to increase consumers’ perceptions of value. In addition, this experiment showed that when websites engage in
operational transparency by signaling that they are exerting effort, people can actually prefer websites with longer waits to those that return instantaneous results—even when those results are identical.

As organizations, especially financial institutions, move towards providing more self-service environments, finding creative ways to increase operational transparency is critical. Pulling from the academic research, the next section highlights some examples of how operational transparency can be implemented.

Transparency of effort helps to increase trust and perceptions of value.
EXAMPLE 1: VISUALIZING THE PROCESS

One method of showing organizational transparency is to visualize the process. This helps consumers understand that work is being done on their behalf. In the example below, we take a simple consumer experience like logging in and infuse effort cues throughout the process.

Figure 8
There are a few examples of companies who have visualized their process to increase consumers’ perceptions of effort. Domino’s Pizza shows consumers a “Pizza Tracker” once an order is placed online. This pizza tracker highlights every step of making a pizza, from ordering to delivery. In addition, the U.S. Postal Service has installed screens which allow customers to see each step taken by the postal worker who is helping them (Buell and Norton 2011).

**Figure 9**

![Pizza Tracker](source: Thereisreason.com)

**EXAMPLE 2: “HUMANIZING” THE EXPERIENCE**

Another method for increasing effort cues is to remind the consumer of the human labor that is involved in proving a product or service. For example, Apple’s automated voice response system includes prerecorded sounds of typing, creating the impression that the digital operator is physically typing a caller’s query. ATMs at the Spanish bank BBVA show an animation of bills being counted as customers wait for the machines to dispense their cash (Buell and Norton 2011). Imagine if online banking platforms provided human cues which reminded consumers of the human labor involved (identifying and naming of
key employees, animation of checks being stamped for deposit, pre-recorded sounds of account transactions receipt being printed).

Figure 10

EXAMPLE 3: UTILIZING REJECTION AGENTS

It is difficult for consumers to fully understand all of the “work” that goes into providing a solution of choice. For example, a consumer searching for a green shirt on Amazon might forget that Amazon’s algorithm had to filter out
millions of the red, yellow, and blue shirts. As Michael Norton explained in his lecture at StartupOnomics San Francisco in 2014, perceived effort can be enhanced by showing “rejection agents.” Rejection agents are objects that a consumer finds unattractive or undesirable.

Rejection agents serve as a way to increase effort cues. By visually showing that the algorithm understands consumers' likes and dislikes, companies can increase operational transparency. For example, imagine a consumer searching for a fixed income ETF and they get a visual representation of all of index, stock, commodity, and currency ETFs disappearing as the search finalizes. This visual representation helps consumers understand the amount of effort that goes into providing a search result.

TRANSPARENCY OF EFFORT CAVEAT

It is important to note that increasing transparency of effort is not effective when the outcome for the consumers is not unfavorable. In 2011, Buell and Norton analyzed the effect of showing effort on perceived value. As expected, showing effort, when compared to not showing effort, increased perceived value when the outcome was favorable or average. However, when the outcome was unfavorable to the consumer, showing effort decreased perceived value when compared to not showing effort. As Buell and Norton note, “These results demonstrate an important boundary condition for the benefits of operational transparency. When a service demonstrates that it is trying hard and yet still fails to come up with anything but poor results...people blame the service for this failure and rate it accordingly” (Buell and Norton 2011).
Another transparency strategy that helps to increase trust is the transparency of intention. Transparency of intention relates to second pillar of trust: integrity. According to Morgan and Hunt, integrity deals with an organizations intention to be fair (1994).

The next section highlights the benefits of increasing transparency of intention and provides specific examples of how organizations can implement this strategy.
VI. TRANSPARENCY OF INTENTION

Our perceptions of intentionality have always played a large role on how we judge and interact with people and organizations. For example, the United States criminal system is rooted on proving intentionality. In murder trials, a district attorney must first prove that the alleged murderer had the intent to end a human life. Murder chargers increase in severity the more that the district attorney proves intentionality. Was the murder premeditated? Was it deliberate?

David Pizarro explored the significance of intentionality and blame during his 2014 “Trust” lecture at Talks at Google. During the lecture, Pizarro discussed the famous footbridge dilemma.

A runaway trolley is heading towards five people who will be killed if the trolley continues on its course. You are standing next to a large man on a footbridge spanning the tracks. The only way to save the five people is to push this man off the footbridge and into the path of the trolley. Is this morally permissible?

Individuals who push the man to save the broader group are judged very differently based how they make their decision. Those individuals that are very decisive and take a shorter time to make a decision are viewed less favorably than those who take a long time and are visually torn about making a decision. For some reason, these intentionality cues make a large difference in judgment.

PERCEPTIONS OF INTENTIONS

Consumers are incredibly adept at perceiving and attributing intentionality, even with very little information. In one study, participants were shown a brief animation of three geometrical shapes randomly moving around on a screen. Participants quickly assigned intentionality to the randomly moving shapes, stating that one of the shapes was “bullying” the smaller shapes (Heider and Simmer 1944).
INTENTIONALITY AND TRUST

Perceived intentionality is a key determinant of trust. Individuals who are perceived to have benevolent intentions are more likely to be trusted (Dunn et al 2012). The power of intentionality is so strong that even when individuals who are perceived to have good intentions engage in unethical behavior, they are still perceived as more trustworthy than individuals who did not engage in unethical behavior (Levine and Schweitzer 2015).

In one of Levine and Schweitzer’s studies, participants played a version of a trust game. Participants were either a “sender” or a “receiver.” In the game, participants’ payoffs were determined by the outcome of a coin flip, which only the sender could see. If the coin landed on heads, then the receiver would receive no payment. If the coin landed on tails, the receiver would receive some payment.

The sender had to communicate the outcome of the coin flip to the receiver, and could choose to lie about the outcome. At the end of the game, the receiver learned if the sender was honest or dishonest in their messaging.

Participants who lied about the outcome of the coin flip so that the receiver could benefit, were rated as more trustworthy by the recipients than those who did not lie. These liars were also rated as more trustworthy by independent third-party observers.

Given how quickly consumers make judgments about an agent’s intentions and the impact that perceived intentions have on trust, it is important that managers reflect on how to manage intentionality. Pulling from the academic research, the next section highlights some examples of how transparency of intentions can be implemented.

Intentions are an important determinant of trustworthiness
EXAMPLE 1: BE TRANSPARENT ABOUT YOUR INTENTIONS

One way to manage intentionality perceptions is to be upfront about your intentions across every consumer interaction. Most financial institutions want their consumers to have good financial health. Why not make this intention explicit?

Figure 12

EXAMPLE 2: TRULY DELIBERATE ON TOUGH DECISIONS

There are many instances where financial institutions have to make decisions that have negative consequences for consumers.

- Turning down someone for a loan
- Declining someone’s credit card application
- Notifying the credit bureau regarding late payments
When these tough decisions come up, it is important to ensure that the consumer understands that a tough decision is being made and that it is being deliberated seriously. These intentionality cues help highlight the bank’s good intentions. Quick decisions rarely signify that there was an internal battle. Consider messages like the following:

- This was a very tough decision to make
- After a long deliberation process and much consulting with key stakeholders
- We were torn about what do for a long time
- This was not an easy decision
VII. CONCLUSION

The U.S. has reached historic lows with regards to consumers’ trust in businesses and financial institutions. This decline in trust should be a cause for concern as consumer trust has important implications on brand loyalty, customer retention, and purchasing intentions.

Increasing transparency, transparency of effort and intention, can help increase trust, and by extension, increase perceptions of value, willingness to pay, and customer experience. Unlike other efforts to increase trust, increasing operational transparency can be accomplished with relative ease. Irrational Labs hopes that the research highlighted in this paper inspire financial managers to increase operational transparency and begin to actively manage consumer trust.


Gunny, K. A. (2005). What are the consequences of real earnings management?


