Can Controls Mend the Glaring Trust Gap?

All available trust indicators show that the loss of trust in companies has become a great deal worse since the onset of the financial crisis. By Antoinette Weibel

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One of the consequences of the crisis is that many governments have tightened regulations and forced companies to increase the formalization of internal control systems, tighten evaluation and audit practices, and revise reward and sanctioning systems. However empirical evidence on whether and how control systems actually impact trust in companies is very limited.

In three new empirical studies using broad samples of employees and managers of European companies, I along with a team of international researchers* examined how organizational controls relate to employee trust in companies and whether "good controls" can be differentiated from those that undermine trust. The good news is that the results clearly show that a balanced control system indeed relates positively to strong employee trust and that companies on average have understood how to avoid dysfunctional controls. Yet the study also shows that badly or inconsistently implemented control systems and "over-control" can have a devastating effect on trust.

Finding the balance

The first important insight this research provides is that "good controls" are balanced controls. A balanced control system rests on three pillars: (1) output controls, (2) process controls *and* (3) normative controls. Output controls – for instance a sound management by objective process – establish clear performance expectations and thereby assist employees to navigate their efforts and to self-determine their "destiny" in the organization. Process controls too are important. Process controls entail clear, well-defined standards but also the monitoring of adherence to standards and sanctioning deviance. Respondents acknowledged that these controls contribute to the company's reliability and integrity as they clarify "the way we work together and treat our customers and suppliers". Finally a balanced control system also relies on common normative principles and shared values whereby employees that deviate repeatedly from such norms have to be held accountable. Most respondents felt that such normative controls enable cooperation and ethical behaviour both within the company as well as towards its partners.

The second insight is that a well-designed control system "on paper" alone is not enough – it also needs to be properly implemented. Good implementation entails 1) that controls are applied transparently and consistently, 2) that the impact of the control system incentivizes trustworthy, competent behavior, and 3) that the rationale for the controls is clear and focused on ensuring reliable goods and services and protecting and supporting stakeholders.

The deadly sins

Finally in the interviews with managers done as part of this research it also became clear why controls sometimes have a devastating effect on trust. There are three deadly sins when it comes to controls. First, overly strict controls do not leave any room for trust or as one of our interviewees puts it “if you overload the organizational controls, it’s completely counterproductive”. Second, controls should not incentivize gaming and political behaviour. Such reactions have been observed above all when companies rely to strongly on output controls in the form of bonus and malus systems. Finally, inconsistency in the application of controls is seen as a major problem as it signals “the same moral standards to not apply to everybody”.

One last question, however, remains without answer: what is more conducive to trust – self-chosen controls or controls imposed on companies by disappointed regulators and pressure of the public? While there is not yet any direct empirical evidence on this, related research on trust repair suggests that companies with a sound control system in the first place stand a better chance to build employee trust than those which wait for their fate to happen…

**Based on: Weibel, A., Den Hartog, D. N., Gillespie, N., Searle, R., Six, F., & Skinner, D. (forthcoming). Human Resource Management.*

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