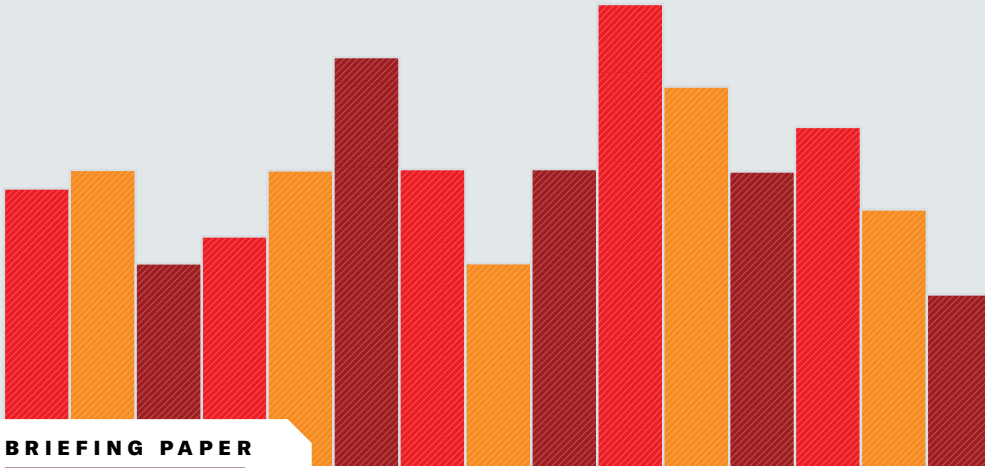




**Harvard
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ANALYTIC SERVICES



BRIEFING PAPER

Channeling Trust in North America to Stay on Innovation's Cutting Edge



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KeyBank has been in business since 1825, so it has plenty of experience innovating to stay ahead of rivals and forming relationships with customers to develop trust. As financial technology startups begin to rival legacy institutions such as Key, Key is leaning on that experience in offering cutting-edge solutions to customers—without sacrificing its reputation for steadiness and reliability. Key's solution: Use established trust as a platform on which to build new products that bring its customers the benefits of the fintech revolution while mitigating their risk. "It's a huge differentiator that allows us to be on the cutting edge," says Ken Gavrity, head of payments for the Cleveland-based bank.

Executives in North America realize they must toe the line between innovation and trust as adeptly as Key. As part of a global January 2022 survey of executives and consumers by Harvard Business Review Analytic Services, 60% of the North American executives responding said they consider innovation to be a "very high" priority—a higher percentage than in any other region. **FIGURE 1** But those executives also know the cost of a loss of customer trust; 67% said a lack of trust would cause "significant economic damage" to their operations.

According to Sandra Sucher, a professor of management practice at Harvard Business School (HBS) and author of *The Power of Trust: How Companies Build It, Lose It, and Regain It*, trust is assessed based on four dimensions: motive, means, competence, and impact. Each of these is important, but competence, she says, sits at the very core of innovation.


"When you place your trust in an organization, part of what you're trusting them for is to be on the cutting edge—at least as much as they need to be,"

HIGHLIGHTS

Executives in North America realize they must **toe the line between innovation and trust.**

While North American organizations understand how important trust is, they aren't as vigilant about **crafting a feedback loop to determine if it exists.**

North American business executives are more likely than their counterparts in other regions **to believe that trust among people, businesses, and institutions has declined over the past two years.**



Sucher says. “You judge a company’s competence based not only on how good it is at delivering today’s product, but also on whether they have a bead on what tomorrow looks like. No one should trust you if you can’t stay relevant. The corporate graveyard is filled with the bones of companies that weren’t able to move with the times.”

KeyBank’s Gavrity is determined to avoid that fate. “We’ve been out there for years saying, ‘We’re a relationship bank,’” he says. “The only way to do that is to build a trust layer with the customer, where I’m constantly saying, ‘I want to get to know you better; the more I know you, the better I can serve you.’ This is existential. We’re handling their money. If we get something wrong, they’re potentially out of business. So, trust is paramount for everything we do.”

This report will explore the state of the relationship between trust and innovation in the North American market. It will highlight areas of alignment between businesses and their customers, explore the barriers North American companies face in their trust and innovation initiatives, and identify ways that executives in the region can improve their efforts with both current and potential customers.

Aligning Innovation with Customer Demand

Trust and innovation, of course, are both worthy business goals individually. But smart executives in North America have learned that when the two are yoked to one another, they can generate a powerful synergy that fuels an engine of dynamism and growth. Businesses engender trust by understanding their customers’ needs and problems and creating new products and services to address those issues. That trust, then, encourages clients to be open to yet more innovations in the future. “People’s willingness to trust your next product depends on their trust in your current product,” says HBS’ Sucher. “It’s what buys your organization permission to move forward.”

With the relationship between alignment and trust in mind, it’s instructive to compare why companies are choosing to innovate to what customers say they want. According to the survey, North American organizations pursue innovation to improve existing products and services (65%), increase profitability (48%), build customer loyalty and/or customer lifetime value (54%), respond to competitive activity (48%), and explore applications of new technologies (41%). **FIGURE 1** These findings are largely consistent for organizations worldwide. Is business’ innovation agenda consistent with consumer needs? In some regards, the answer clearly is affirmative. For example, 57% of North American executives say convenience and ease of use are innovations that matter most to their customers in 2022. The exact same share (57%) of consumers say it is an innovation that matters most to them. Meanwhile, 53% of North American executives and 58% of North American

consumers say the same about innovations that ensure data security and information privacy.

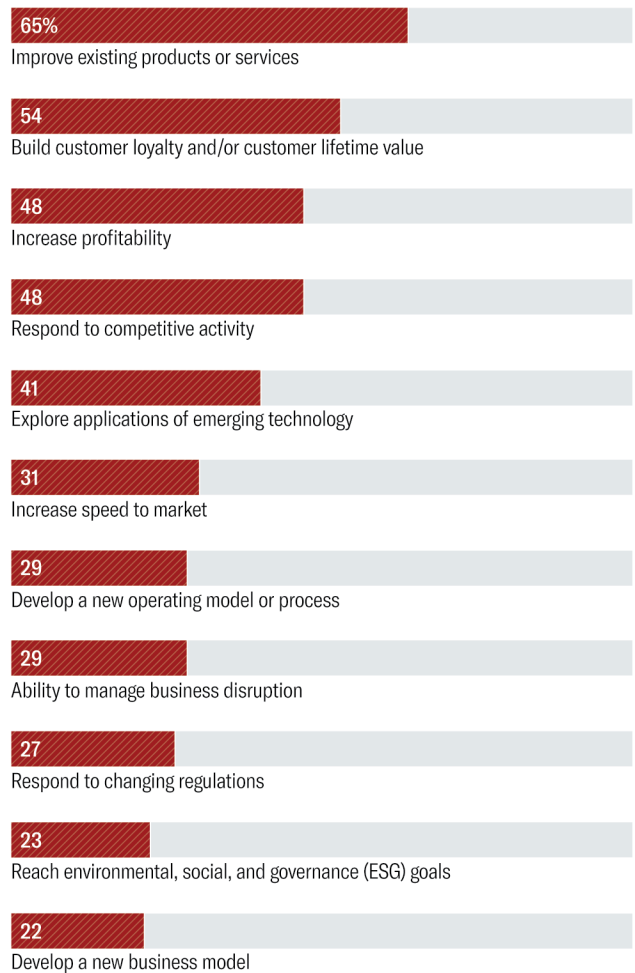
That’s encouraging, because as Sucher points out, one of the key ways innovators build trust is by finding alignment between their goals and what their consumers desire. After all, new products and services, however technically advanced, are likely doomed to fail if they do not adequately address genuine customer needs. Such a paradigm is worth noting given that there are several disconnects between what North

FIGURE 1

The Leading Drivers of Innovation

For North American organizations, improving products and services tops the list

Which of the following areas are the biggest drivers of innovation at your organization? [Select up to five.]



Source: Harvard Business Review Analytic Services survey, January 2022



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of the North American executives responding said they consider innovation to be a “very high” priority—a higher percentage than in any other region.



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American executives think their customers want and what those customers actually desire.

Consider that 72% of North American consumers surveyed cited pricing and lower costs as an innovation priority they seek in products or services, while notably fewer North American executives (39%) think this is an area of innovation that is a top priority for their customers. **FIGURE 2** Nearly 60% of consumers cited product and service innovations related to their health and safety as a key area that matters to them, something just 31% of North American executives believe matters most to their customers. Nearly two-thirds (62%) of these executives believe customers want product or service innovations that respond to their needs in real time, something sought by just 41% of the surveyed consumers. Nearly half of executives (48%) in the region said their customers really want personalization and customization, while just 26% of consumers say that is what they really want.

The survey also found that nearly three-quarters (74%) of North American customers surveyed say they will not purchase from organizations they do not trust. As a result, a key challenge for business leaders seeking to place their organizations on the cutting edge of innovation is to engender trust by maximizing alignment and minimizing disconnects. Gavrity, who is responsible for setting and executing strategy for the commercial payments business at KeyBank, has created a system that weaves trust and innovation into a kind of virtuous circle: Use the trust from banking relationships with customers to offer solutions to new problems, which then deepens that customer trust, and then continue that cycle. “We start everything with the client at the center,” Gavrity says. “I am constantly making sure that I know what the biggest pain points are and what capabilities we have at the bank to solve them. That’s one of the biggest cultural changes that we’ve made.”

“That dynamic has enabled Key to roll out digital offerings such as embedded payments that enable users to seamlessly integrate Key banking services within business management software systems; automation capabilities that improve working capital; and new risk management and fraud mitigation services, among other things.”

Besides offering innovations to serve customer needs, Key also solicits feedback at virtually every customer touchpoint and uses that data to constantly recalibrate strategy. The

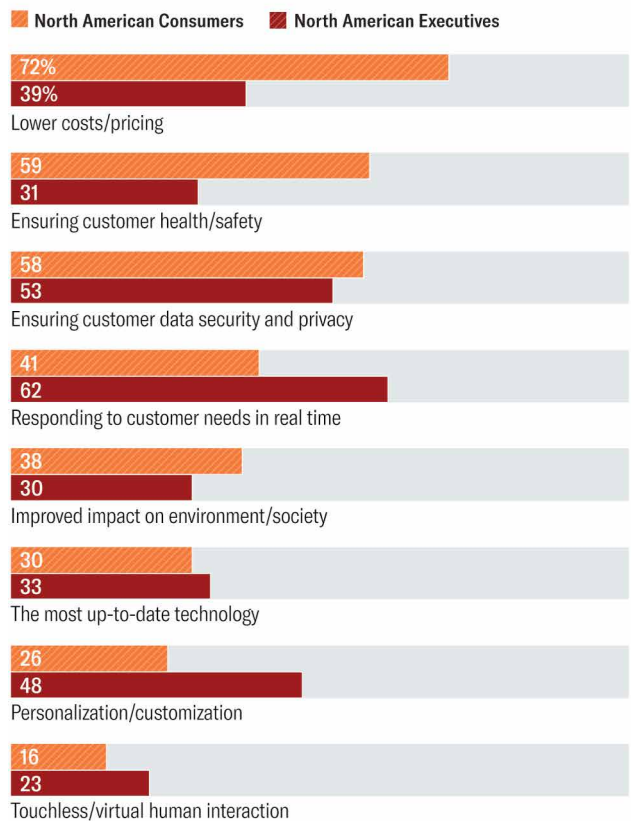
FIGURE 2

Misalignment That Could Undercut Trust

Wide gaps exist between the innovations North American businesses and consumers prioritize

Consumers: Which of the following product or service innovations matter most to you? [Select up to five.]

Executives: Which of the following product or service innovations does your organization believe will matter most to your customers in 2022? [Select up to five.]



Source: Harvard Business Review Analytic Services survey, January 2022

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bank's customer service tools turn every less-than-satisfactory customer interaction—everything from inattentive service to full blown fraud events—into a case to be investigated, resolved, and logged. The idea, Gavrity says, is to place trust at the center of Key's business, even as the customer base expands and priorities and initiatives shift. "Those moments, whether it's a genuine operational failure or just a perceived failure or a moment of vulnerability, are probably the most important moments that we have with our customers," he asserts.

He feels that way because problem-solving can be a powerful trust builder. "That's where the relationship is truly tested," Gavrity explains. "If I can remain customer-centric in that moment, I will keep that customer for another 10 to 20 years."

KeyBank may be an exception, however. While North American organizations understand how important trust is, they aren't as concerned about crafting a feedback loop to determine if it exists. Eighty-four percent of executives in the region strongly or somewhat agreed with the statement that their organizations place a high priority on building trust with customers, but only 28% of them say their organization has a trust assessment program in place, and 47% have no plans to introduce one. The lack of such a trust feedback mechanism could lead to missed opportunities to build and deepen customer relationships—resulting in clients who are less trusting and, ultimately, less likely to be open to new products and services. "When you recover well from a problem, you cause loyalty to become higher than if you'd never had a problem in the first place," says Sucher. "It gives customers an additional reason to trust your organization."

Trust Paves the Way for Innovation

Designing new products and services almost by definition requires taking risks and making mistakes. Organizations, and their employees, have to be comfortable with both. According to the survey, 47% of North American executives feel strongly that high levels of customer trust make it easier for a company to innovate, but even more—59%—express the same degree of agreement about employee trust.

The challenge for organizations is to create a culture of innovation, built on the basis of trust, that not only tolerates but celebrates mistakes and systematic learning from them. "A trusting environment is more likely to tolerate failure, and when you tolerate failure, your people and your researchers will take more risk," says Kieu-Trang Nguyen, an assistant professor of strategy at Northwestern University's Kellogg School of Business in Evanston, Ill., who studies the relationship between trust and innovation. "Embracing failure is a fundamental part of the innovation process."

Using a data set of 5,753 CEOs, 3,598 publicly held U.S.-based companies, and 700,000 patents between 2000 and



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2011, as well as one million employee reviews culled from the employer-review site Glassdoor to assess the strength of those firms' trust cultures, Nguyen conducted a CEO trust analysis. She found that the highest CEO trust quotient correlated with 6% more patents, with the average patent quality being four to six times higher than the norm. "The key message for leaders is that if you care about innovation, your employees need the psychological safety to take risks," Nguyen says.

Still, building a culture of innovation able to respond nimbly to today's challenges is no simple task, especially at a large organization. At KeyBank, for example, successful innovation initiatives tend to require collaboration among teams not always accustomed to working together. A new product or service at KeyBank, for example, needs to draw on product teams, risk-management professionals, engineers, marketers, and more.

To prevent scheduling snafus and lengthy approval processes, KeyBank has created cross-departmental "super-squads" dedicated to specific innovation projects. Executives are freed from their day-to-day responsibilities to focus exclusively on new product or service initiatives. These teams are effective, Gavrity says, because of the bonds of trust that develop. They become a tightly knit interdisciplinary unit that can move fast, make mistakes, and readjust on the way toward achieving its goal. "They've left their day jobs and we've put them together on a dedicated basis, where they're iterating agilely as a team," Gavrity says. "When you operate like that, you're sharing at a different level. You're only doing this project, and you're giving it all of your best thinking. A trust layer emerges that lets information flow to solve problems so much faster."

Gaining customer trust isn't the only external factor that can help with innovation. Gavrity points to another externality that's important—the relationships he is constantly nurturing



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Of the institutions the group surveyed, it was business that inspired the highest degree of trust—61% of respondents said they trusted in business, while 72% singled out their employer as worthy of being trusted, according to the 2022 Edelman Trust Barometer.

with other professionals from throughout the North American banking, investing, and fintech ecosystem. For KeyBank, successful innovation is a matter of knowing when to build capabilities in-house, when to partner with other players, and when to acquire startups with smart solutions, he explains. “There’s a lot of sharing back and forth, and it’s really helped entrench us into the ecosystem,” Gavriety says. The way he sees it, if trust forms a platform from which to launch innovative products and services, that platform is supported by three equally important legs—customers, employees, and the wider financial ecosystem. “It’s all symbiotic,” he says.

Conclusion

North American organizations are increasingly looking at product and service innovation as a vehicle for future growth. But the ability to successfully innovate depends on having a deep reservoir of customer trust. Indeed, in a business world driven and dominated by innovation, in which the only constant is change and uncertainty, the time-honored value of trust may be more important than ever.

But these are tricky times when it comes to trust relationships, especially in the North American marketplace. According to the Harvard Business Review Analytic Services survey, North American business executives are more likely

than their counterparts in other regions to believe that trust among people, businesses, and institutions has declined over the past two years. And other researchers have reached similar conclusions.

According to the 2022 Edelman Trust Barometer, “distrust is now society’s default emotion,” with nearly six in 10 surveyed saying their default tendency is to distrust something until they see evidence that it is trustworthy. But for businesses, Edelman found at least one bright spot: Of the institutions the group surveyed, it was business that inspired the highest degree of trust—61% of respondents said they trusted in business, while 72% singled out their employer as worthy of being trusted. “It’s one of the ways that business actually distinguishes itself as an institution in society,” says Sucher.

As Gavriety’s experience at KeyBank demonstrates, companies that invest in creating systems to enhance trust—among customers, employees, and others in their industry—can develop a real edge. Those who are equipped to truly listen can build on existing relationships and design and deliver new products and solutions to address those employee and customer needs.

“We’re living in an interconnected world in which change happens over shorter and shorter intervals,” Gavriety says. “Trust has always been important, but now more than ever, it has to be the focus of the organization.”



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