***The Insightful Leader* Podcast Transcript**
Do Bosses Who Trust Their Employees Deliver More Innovation?

**Jessica LOVE:** For leaders, deciding how much trust to place in the people you manage can be tricky. If you assume that your staff will always spend their time wisely, then they might take advantage of you. But on the other hand, if you want people to innovate, some level of trust is critical. Because in order for employees to feel comfortable taking a risk, they have to know that you won't fire them if things go wrong—that you're willing to tolerate some failure on the road to success.

Which is what got Trang Nguyen thinking about how trust works at the very top of an organization. Nguyen's an assistant professor at Kellogg. But before going into academia, she had worked as a management consultant. So she saw firsthand how the attitudes of a top leader—say, a CEO—would trickle down through a company over time. So she began to wonder whether a trusting leader could give employees throughout an organization the freedom they needed to really innovate.

**Trang NGUYEN:** I've seen a lot of quotes from people were saying that the job of the CEO, for example, is to create an environment where people feel safe to experiment and fail. So this is where trust really is coming in—encouragement of people to embrace failure, allowing people to make a mistake, but also sort of encouraging people to learn from that mistake.

**LOVE:** It made sense in theory. But then again, corporations are huge, complex systems, with lots of factors influencing innovation. Could the trust of a top leader really make that much of a difference? Nguyen decided to find out.

Welcome to *The Insightful Leader* from the Kellogg School of Management. Today on the podcast: It turns out, a trusting leader really can spur more innovation—but too much trust comes at a cost. We'll hear about a new study that takes a clever approach to analyzing the impact of trust at the top. You'll learn why trust spurs innovation, and how to know if more trust is what your organization really needs.

**NGUYEN:** If innovation is the important thing then, yes. But that's an important if!

    **[musical interlude]**

**LOVE:** Nguyen's theory about trust and innovation was pretty straightforward. Innovative work is inherently high-risk, high-reward. If the engineers in the R&D department are trying to produce the first-ever smartphone, they're likely to fail a bunch of times before they get it right. Meaning they're going to use up lots of time and resources with little to show for it. So in order to feel safe to pursue this kind of innovation, Nguyen figured, the R&D team needs a trusting leader at the top of the org chart—one who will let them work through those failures, trusting that they are actually working hard, not shirking, and will eventually figure it out. Nguyen had actually experienced this firsthand in her own research work. She remembers going into her advisor's office at one point...

**NGUYEN:** And I said that I've made no progress because I haven't found anything new. And then, to my surprise, she said, "No, you're making progress because you figure out that some things don't work."

**LOVE:** Having that support encouraged her to keep trying new, challenging things. So she wondered if a CEO could have a similar impact on a company. But to find out, she first needed to measure how trusting various CEOs were. Unfortunately, this is a hard thing to measure, especially for the kinds of big public firms Nguyen was interested in.

**NGUYEN:** So, the CEOs are really high level up. And those are not the people who you can easily approach. And even if you can actually get them in the room and try to survey or ask them to play some sort of trust game to measure their trust attitude, there's still a lot of measurement error. So, I mean, measuring trust at the individual level is a very challenging task.

**LOVE:** As a result, there just isn't much data out there about how trusting CEOs are. In fact, there's even limited data on how trusting the general population is. But what Nguyen DID find was a single question about trust on the US General Social Survey put out by the Census Bureau. It asked each respondent, "Do you think most people can be trusted?" But she still needed some way to then connect those responses to the CEOs of the big companies. And, unfortunately, the survey could not ask respondents the question she really wanted an answer to: "Are you the CEO of a major company, and if so, which one?" So she was going to need a different tactic.

The way Nguyen saw it, how trusting a particular person is depends partly on things that were unique to the individual, like life experience and psychology. But she also believed that trust depends in part on that person's culture—essentially, their family background. There's a lot of research in sociology and economics showing that many traits, including trust, are inherited in part from our families' cultural traditions.

**NGUYEN:** So, the idea is that when immigrants move from one place to another, they carry with them a lot of their beliefs and preference, and they pass them down to their children. And empirically, a lot of people have shown that within the US populations, where people come in from different ancestry, a lot of the preferences and beliefs of those populations are still highly correlated with those in the home country.

**LOVE:** This remains true even after four or five generations. And it just so happened that the same survey with the trust question also asked each respondent what ethnic origin they identified with, meaning that Nguyen could break down answers to the trust question by ethnicity. And when she did so, she found that there was a lot of variation. For instance, 72 percent of Belgian-Americans said that they think most people can be trusted, but just 47 percent of Italian-Americans said the same thing. So while it might be impossible to know how trusting an *individual* CEO was, Nguyen could still learning how trusting CEOs were on average if she knew their ethnicity.

So Nguyen wrote an algorithm that could guess what someone's ethnicity was based on their last name. She ran that algorithm on the names of all 4,000 CEOs in her database of

large American companies. And finally, she assigned each CEO the trust score that corresponded to their ethnicity.

Now, Nguyen realizes this is an odd way to get at trust. Last names say little about a given individual, or their value as a leader. But in aggregate, she says, this method was able to capture something about trust. When she looked at reviews written by employees on Glassdoor.com, on average, she found that a company's trust culture improved when its new CEO was more trusting than the old one as measured by her algorithm, which suggested that CEOs from certain backgrounds really were bringing more trust to their organizations. And besides, if the last-name measure wasn't capturing anything meaningful, then Nguyen's statistical analysis probably wouldn't have found much. Trust would have come out in the wash. But that's not what happened.

**[musical interlude]**

**LOVE:** So Nguyen's question was about trust and innovation. She looked at times when a company's CEO changed, and the new CEO was from a more trusting or less trusting culture. She measured how this affected innovation by looking at patents, since companies that produce more patents are presumably more innovative. And what she found was, when a more trusting CEO came in, the company indeed tended to produce more patents than before. For instance, if CEO trust increased by the difference between the average Greek-American CEO and the average British-American CEO, the average company would see patents increase by a full six percentage points. For the typical company, that's one full additional patent per year, worth around three million dollars on average.

**NGUYEN:** I was surprised to see quite a large effect, which means that firm organizational culture changed faster and top leaders seem to have a larger impact than I would expect.

**LOVE:** Next, Nguyen looked at mutual trust between the CEO and the researchers at each company. To do this, she used a different survey that asked how much people from certain ethnicities trusted those from other ethnicities—say, how much the French trust the British. Then, much like before, she used last names, and the location of the company's overseas R&D labs, to estimate the mutual trust between the CEO and the company's research team. And what she found was that even in the same firm and under the same CEO, researchers that are more trusted produce more innovations.

For example, imagine a firm headquartered in the US that has two overseas R&D labs, in France and in Germany. The firm switches from a Greek-origin CEO to a British-origin CEO. That leads to more trust towards the German lab but less trust towards the French lab. What Nguyen finds is, the German lab will increase its patenting more than the French lab.

To be clear: The takeaway is *not* that all people of certain ethnicities are more trusting, or make better leaders. There are a million other factors that determine whether that's true for a given individual.

**NGUYEN:** I'm not saying that you should hire a Belgian CEO versus an Italian one. But you should care about how trusting they are.

**LOVE:** Because the evidence did seem to confirm Nguyen's theory, that trust at the top really does matter for innovation. Now, leaders might hear this and think it's tremendous— that trust is this secret ingredient that will turn your organization into an innovation powerhouse! But Nguyen says, not so fast. Trust is not a silver bullet.

**NGUYEN:** Because when trust is misplaced, then I also become less effective in screening out the ones who are not doing the work.

**LOVE:** In her study, Nguyen also looked at how the role of trust differed based on the quality of the research team. She measured how good the researchers were by counting how many patents they'd produced prior to the new CEO coming in. And what she found was, if you have low-quality researchers, trust is going to have a much smaller effect on innovation. In fact, it could even backfire.

So what should leaders make of this? Well, to begin with, Nguyen's study points to a couple of situations where it does *not* make sense to go all-in on trust. Keep in mind that trust leads to innovation because it allows people to take risks and fail. So if you're in a context where failure should not be tolerated—say, you're leading a surgical team, or need to launch a product by a strict deadline—then saying, "I'll support you no matter what happens" probably isn't a good idea. Besides, innovation is not always the goal, which means trust isn't always the right strategy.

**NGUYEN:** But if innovation is the important thing, then, yes, definitely trust should be considered seriously.

**LOVE:** Another of Nguyen's findings: When CEOs had doctorate degrees, trust had no effect on innovation. She says that's probably because these leaders know more about what their researchers are doing.

**NGUYEN:** A lot of these doctorates are likely to be engineering, sort of R&D-related doctorate degrees. And for those people, who have a better understanding of the process, they might rely less on the initial belief but more on the actual experience and technical knowledge.

**LOVE:** The takeaway: Trust matters most when a leader just doesn't know if their employees are doing good work or not. So if you're brand new to an organization, or you're moving to a new department whose work you're not so familiar with, choosing to be trusting can help with innovation. But if you already know a lot about the projects your staff are working on, make sure that you're not letting trust cloud your good judgment.

> [musical interlude]

**LOVE:** So assuming that more trust makes sense for you as a leader, what steps can you take to build that trust? The most important thing, Nguyen says, is to prove to your employees that they're truly free to take risks. However you do it, make clear that you value innovation more than immediate results.

**NGUYEN:** Really communicate that clearly so that it becomes credible for the people who are supposed to act based on that belief.

**LOVE:** This episode of *The Insightful Leader* was produced by Kevin Bailey, Jessica Love, Fred Schmalz, Jake Smith, Michael Spikes, and Emily Stone. It was written by Jake Smith, and edited by Michael Spikes. Special thanks to Trang Nguyen.

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We'll be back in a couple weeks with another episode of *The Insightful Leader*.