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After three years of negative or low growth, the UK’s organisations are feeling the strain. With highly volatile stock markets, economies across southern Europe in danger of default, confidence in bankers, politicians and journalists near rock bottom and riots in our major cities, the issue of trust is more important than ever.

Over the last three years ILM and Management Today’s Index of Leadership Trust has monitored the level of trust in the UK’s leaders and managers. This year’s results offer a small glimmer of optimism amid the economic gloom. Employees trust their CEOs and managers more than they did last year, if only by a small margin. It is reassuring to see that UK workers are more confident in the ability of their bosses to get them through these difficult times. But at a time of real pressure, is a slight increase enough?

Trust isn’t a nice-to-have – it’s an essential component of effective leadership at all levels. Trust drives engagement and motivation, and is therefore critical in enabling higher organisational performance. So while any rise in trust levels is good news, we can see there is still real room for improvement for CEOs, and line managers in particular.

We also took a closer look this year at the relationship between ethical behaviour and trust. There has been a lot of discussion about the importance of business ethics in the wake of the banking crisis and consequent recession and, more recently, the phone hacking scandal. Our research reveals that leaders and managers need to do more to embed ethical values into the culture of their organisations. If they succeed there is the valuable added bonus of improving trust levels, as the findings show a strong link between ethics and trust.

And, since we know that organisations with high levels of trust enjoy clear economic benefits, it shows that adopting a strong stance on ethics is not just the right thing to do, but offers a performance pay-off too.

Peter Cheese, Chairman
Institute of Leadership & Management
Employees trust their CEOs more now than at any time over the last three years. That’s the message from the ILM 2011 Index of Leadership Trust. But with trust a critical factor in effective leadership at all levels, we see clear room for further improvements at this time of real challenge for so many organisations.

In previous years, line managers have outperformed CEOs on trust by a substantial margin. Now we see that CEOs are closing the gap. Line managers score 70 on the Trust Index, compared to 66 for CEOs, a four point difference, narrowed from 10 points in 2009.

There are six dimensions of trust – ability, understanding, fairness, openness, integrity and consistency (see methodology on p12). CEOs have improved across all six, but especially on their understanding of the respondent’s role and what is involved in performing it effectively. In three years they have closed the gap with line managers on this dimension from 25 points to 14 points, to their current rating of 58.

CEOs step up
What’s behind the improved CEO performance? ILM’s trust research shows that the more distant an employee feels from their boss, the less likely they are to trust them. In the wake of the economic downturn, CEOs are taking a more hands-on approach. Rising to the challenge, they are visibly leading their organisations through a period of substantial change and upheaval. Significant increases in CEO ratings on openness and understanding show that employees feel closer to their CEOs than before.

There is still some way to go. CEOs trail line managers on total trust scores. Even greater visibility, stronger relationships with the workforce and demonstrating integrity – through better communication, a more consultative leadership style and behaviours that are consistent with values – will help maintain CEOs’ progress.

For their part, line managers’ scores have been fairly static over the last three years. Trust in line managers is even more critical to organisational performance than trust in CEOs, so this lack of progress is a real cause for concern.

Gender and trust
We looked at CEO and line manager trust from a number of different perspectives. That includes gender and the size of the organisation. Women CEOs outperformed men on trust over the last two years. But the research shows that men have upped their game, as male and female CEOs now share the same trust index score of 66.

Some gender differences remain, however. Women are less likely than men to trust their CEO on understanding, fairness and openness. They trust line managers less on fairness. It suggests that women feel they are still not getting a fair deal in the workplace.

Organisation size and trust
The increase in trust in CEOs and line managers is not evenly reflected across all sizes of organisation. As the size of the organisation (measured by number of employees) increases, trust scores decrease. Leaders in the largest organisations, where staying visible is toughest, must work hardest to build and maintain trust. CEOs leading small organisations with fewer than 10 employees score 74. Bosses of organisations with over 1,000 score 59, a 15 point deficit. The trend is the same for line managers in the largest organisations, who are losing ground on trust, down a point from 2010.

Public sector low on trust
While CEO trust ratings are up overall, there is cause for concern in the public sector, where CEOs are the least trusted of any sector. They receive the lowest scores across all six dimensions of trust. And the margin is growing. On ability, public sector bosses score 67 points – five points less than private and third sector CEOs. It seems public sector employees doubt the ability of their CEOs to get the job done given the pressures facing the public sector at the moment.

The trust deficit we can see in large public sector organisations is particularly worrying, where CEOs score 55, seven points behind similar sized organisations in the private sector at 62, and 10 points below the
third sector, whose CEOs receive a trust score of 66. National and local government, health and education organisations with over 1,000 staff have the three lowest scores for CEO trust (57, 52 and 55 respectively). The situation is particularly bad in education, the only sector to show a decrease in trust year-on-year.

It is tough to be a leader in the public sector at the moment. The sector is facing a period of extreme uncertainty. The debate about policy changes, the introduction of market forces and severe budget cuts required across the sector all create a climate of indecision and ambiguity. These are circumstances that require strong and exceptional leadership.

At the moment, public sector staff do not feel they are getting the leadership they need. Our findings suggest a clear and pressing need for public sector employers to address the trust deficit that will hold back successful changes.

The importance of ethics
In the aftermath of the banking crisis, the BP oil spill and the phone hacking scandal, we also explored the relationship between ethics and trust. Ethical considerations are increasingly important for UK employees, and we expect this trend to accelerate. We were interested to see that those managers and CEOs considered more ethical are also considered more trustworthy. This highlights a clear trust benefit attached to improving the ethical attitudes and approach of the organisation, the workforce, its managers and leaders.

At present most employees rate their managers, CEOs and organisations as reasonably ethical. Organisations and CEOs score an average 6.8 out of 10, and line managers 6.9. But again, we can see clear room for improvement among UK organisations.

Half of those surveyed believe their organisation prioritises financial goals over ethical operations, and 48% and 44% say the same of their CEOs and line manager. A significant proportion of employees appear to have little awareness of their CEOs’ views on ethics. When asked to rate how ethical their CEO is, 12% of respondents answered “don’t know”.

Making progress on ethics
A significant proportion of organisations have improved their approach to ethics in recent years. A sizeable 38% of third sector employees feel their organisation has improved its ethical operations over the last three years. The figures are 36% and 34% for the private and public sectors respectively. Disappointingly, though, 17% of public sector employees think their organisation operates less ethically today than three years ago.

At an industry level, 46% of employees in financial services, banking and insurance say the industry has changed for the better. However, in the national and local government and other public sector category 21% of employees think ethical standards have slipped.

A trust bonus
The research suggests that organisations which drive ethics into the heart of their operations can obtain the additional bonus of a trust dividend. It is a dividend that feeds into employee engagement and workforce commitment, and thus improves organisational performance.

In order to gain this trust effect, though, CEOs and line managers need to set the ethical agenda and integrate ethical behaviours into the cultural fabric of their organisation. This means investing in ethical initiatives, training in ethical behaviours and the effective internal communication of the organisation’s ethical values and targets. Leaders then need to take a visible lead, acting in a manner consistent with the ethical standards of their organisations, raising awareness of those ethical values and standards, and ensuring that people act appropriately.
Each year ILM’s Trust Index reveals the extent to which the UK’s CEOs and line managers are trusted by their employees. As an integral part of employee engagement, trust goes to the very heart of an organisation’s performance. The index scores, therefore, are required reading for senior management, policy makers, and leaders and managers generally.

The good news from the 2011 index is that trust in CEOs is up. Having trailed line managers by some way in recent years, the difference between the line manager and CEO scores has narrowed from 10 points in 2009 to just four points in 2011. With a Trust Index score of 70, one point up from 2010, line managers remain ahead of CEOs who score 66 – but only just (see Fig 1).

Trust is scored across six dimensions: the manager’s ability to do their job; displaying knowledge and understanding of their employees’ roles and responsibilities; behaving fairly and showing concern for the welfare of employees; being accessible and receptive to ideas and opinions; striving to be honest and fair in decision making; and behaving in a reliable and predictable manner. In short – ability, understanding, fairness, openness, integrity and consistency.

Ability is the most important trust factor for employees, and consistency the least important. CEOs are making progress across the board, up in every dimension. In particular, though, CEOs have improved their scores on understanding, closing the deficit with line managers over three years from 25 points to 14 points, and achieving their current rating of 58 (see Fig 3).

**CEOs rise to the challenge**

So what is behind CEOs’ improved performance on trust? Simply put, CEOs are stepping up, raising their game and visibly leading their organisations through some of the toughest times employees have experienced.

Over the last few years, organisations have struggled to adapt to the unpredictable business conditions in the wake of the banking crisis and economic recession. Many are going through a period of significant change and upheaval. We know from our previous Trust Index research that the more distant you feel from your team boss or CEO, the less likely you are to trust them. Many CEOs, who might once have been largely hidden from view, have taken a much more hands-on approach. Significant increases in CEO ratings for openness and understanding support the idea that employees feel closer to their CEOs than before.

There is still plenty of room for improvement, though. Trust is the ultimate leadership commodity; you can never have enough of it. And the index highlights several areas on which CEOs can focus to
further build their trust capital. In order to continue to close the distance between themselves and their employees they would benefit from even greater visibility and stronger relationships with the workforce. By continuing to focus on good communication, visibility and accessibility, as well as ‘walking the talk’, CEOs must try and maintain the progress they have made.

**Line managers lag behind**

As for line managers, the research paints a different picture. With scores largely stable over the last three years, we see that managers have made negligible gains in trust, certainly in comparison to their CEOs (see Fig 4). Line manager trust is even more critical to employee engagement and organisational performance than CEO trust. In a normal organisation hierarchy, if there is such a thing, line managers are invariably more visible to employees. Because of this proximity, they are more likely to form relationships where they can influence individual staff members’ performance and engagement by demonstrating the dimensions of trust. As such we would expect line managers to be significantly more trusted. However, the latest index shows managers have clearly not kept pace with CEOs in improving their trust capital.

One of the chief reasons for this may be the relative lack of support and development line managers receive. CEOs are likely to have access to a support network of executive coaches, PR and brand advisers and communications specialists to guide and inform their behaviour. Managers at lower levels generally receive far less support and development, while any weaknesses in their competence and capability are far more visible. Organisations looking to increase trust and drive performance can do so by providing greater support and development opportunities to line managers at every level to help them increase their skills, knowledge and awareness. Meanwhile, individual managers can improve their effectiveness by focusing on the drivers of trust, in particular their capability and integrity, especially during difficult times.

**Men close the gap**

The research also looked at CEO and line manager trust from different perspectives, including gender and size of organisation. On gender, men have bounced back in the trust ratings (see Fig 2). Women CEOs have outperformed men on trust for the last two years. Now though, the gap has closed. Male CEOs have upped their game. In the
last couple of years, everyone has had to pull together to get through the recession. It is possible that views on men’s trustworthiness have changed as a result. One possible explanation for the closed gap is that male CEOs were slower to respond to the anxieties of their workforces but have now woken up to the need to improve their performance across the six leadership dimensions that help to inspire trust.

There are still gender differences, though. Women trust their line managers less than male employees do when it comes to fairness and their CEOs less on understanding, fairness and openness. It suggests that women feel they still don’t get a fair deal in the workplace (something we explored earlier this year in our report, Ambition and Gender at Work).

The importance of employees feeling in touch with their managers and leaders is highlighted when we look at the relationship between trust and organisation size (see Figs 5 and 6). The largest organisations have to work hardest to build and maintain trust. While trust in CEOs and line managers is up overall, the increase is not evenly reflected across all sizes of organisation. Trust scores decrease steadily for both line managers and CEOs as organisation size increases. With line managers the difference in the trust scores between the smallest (fewer than 10 employees) and largest (over 1,000) organisations is eight points (75 to 67). For CEOs the difference widens to 15 points (74 to 59).

**Size matters**

In the largest organisations, it is more difficult – and takes longer – for CEOs to raise levels of trust. In small organisations CEOs had a high trust score, while those with 50-1,000 employees have made substantial progress – a seven point increase. In the largest organisations, however, CEOs started from a low base of 59 and have made just three points headway on trust.

These scores emphasise the effort that is required to build closer relationships with employees. It is difficult for CEOs of large, complex structures to maintain visibility in a way that has an impact on trust. The bigger the organisation, the longer it takes to translate increased visibility into increased trust scores. In time CEOs of larger organisations may follow the trust trend upwards. The message for leaders in organisations of all sizes, though, is don’t wait for a crisis to step out of the shadows.
Section two: trust in the public sector

While CEO trust ratings are up overall, there is little to shout about in the public sector where the news for CEOs is grim. Public sector CEOs are in trouble. Of CEOs from the three sectors, they are the least trusted. And the margin is growing.

The findings suggest that public sector CEOs are failing to tackle the problems their organisations face as effectively as their private and third sector counterparts (see Fig 7). Or if they are, they are not doing so in a way that builds trust among their employees. As a result they are missing out on the full commitment of their people, at a time when it is needed most.

Crisis of confidence

CEOs in the public sector receive the lowest scores across all six dimensions of trust – lower than CEOs in either the private or the third sectors. It seems public sector employees doubt the ability of their CEOs to get the job done given the pressures facing the public sector at the moment. On ability public sector bosses score five points lower than CEOs from the private and third sectors (see Fig 9). This indicates there is more confidence in the ability of private and third sector bosses to lead their workforce through the downturn. Public sector leaders also score four points lower than private sector leaders on understanding.

Factor in size and the problems get worse for public sector leaders. We know that CEOs of larger organisations generally experience lower trust. The public sector has more than its share of large (over 1,000 employees) organisations, so the trust odds are stacked against its CEOs. But even so, we see a worrying trust deficit in large public sector organisations, where CEOs score just 55, seven points behind the private sector at 62, and a massive 10 points below the third sector, whose CEOs receive a trust score of 66 (see Fig 8).

Looking at the trust levels of individual industries, we see a real issue emerging in leadership across the public sector. It is the industries that have, or used to have, heavy public sector involvement that have the highest proportion of employees scoring their CEOs below 50. Workers in national and local government are least trusting of CEOs, followed by those in utilities, post and telecoms.

National and local government, health and education organisations with over 1,000 staff have the three lowest scores for CEO trust (57, 52 and 55 respectively). The situation is particularly bad in education, the only sector to show a decrease in trust year-on-year. These same industries also show the largest differences between line manager and CEO scores, 11 points in national and local government, nine points in education and seven in health.
There is no question that it is tough to be a leader in the public sector at the moment. The sector is facing a period of extreme uncertainty. The debate about policy changes, the increasing pressure of market forces and the severe budget cuts required across the sector all create a climate of ambiguity. Each sector faces its own specific challenges too, whether it’s the health reforms in the NHS, the new approach to university funding or secondary school conversion to academy status, or the local and national government efficiency drive, where funding cuts have hit hardest so far.

**Challenging times**

These are difficult circumstances that require strong and exceptional leadership. The current conditions make it particularly challenging for CEOs to set clear and consistent direction and make strategic decisions about the future in such complex organisations. It is also possible that some public sector senior leaders may lack the blend of skills, knowledge and awareness that would enable them to navigate this difficult period more effectively. It is noticeable that public sector CEOs score comparatively lower ratings for ability. Either way it seems at the moment, based on the trust evidence at least, staff in the public sector feel they are not always getting the leadership they need.
Section three: ethics and trust

The banking crisis, the phone hacking scandal, the outcry over MPs’ expenses – ethics is a big issue in the UK at the moment. The ethical behaviour of organisations is under increasing scrutiny on a number of fronts. Corporate reputation and a company’s ethical standing are significant factors in the talent war. Increasingly, people want to work for ethical organisations. And this focus is only going to intensify.

This year the ILM Index of Leadership Trust focused in on the relationship between ethics and trust, and discovered a strong link between the two. Those managers and CEOs who are considered more ethical are also considered more trustworthy. It is a finding repeated across sectors for line managers and CEOs, with the correlation between ethics and trust strongest for line managers, though only slightly less so for CEOs. There is a clear trust benefit attached to improving the ethical approach of the organisation, the workforce, its managers and leaders.

Room for improvement

Most organisations already operate a code of ethics, a fact which is partly reflected in the findings. The figures show that most employees rate their managers, CEOs and organisations as reasonably ethical, but there is still clear room for improvement. Organisations and CEOs average 6.8 out of 10, and line managers 6.9. Smaller organisations with fewer than 10 employees are rated the most ethical (see Fig 10). Organisations in the third sector, and then the public sector are rated as more ethical than those in the private sector (see Fig 11). And the three most ethical industries according to the findings are the charity, health and education sectors.

Organisations’ attitudes to ethics are shifting, but not always in the right direction as far as some employees are concerned. Respondents were asked if their organisation’s approach to ethics had changed over the previous three years. A significant proportion (17%) of public sector employees believe that their organisation operates less ethically today than three years ago. Only 11% of employees in the private sector, and 8% in the third sector, feel the same. Given that expectations of ethical behaviour are increasing, this lack of progress over three years is a concern.

On a more positive note, a sizeable 38% of employees working in the third sector feel their organisation has improved its ethical operations, compared to 36% of private sector employees and 34% of workers in the public sector.

The employees who perceive the greatest improvement work in the financial services, banking and insurance sector where, reassuringly, 46% say the industry has changed for the better. Least impressed are workers in national and local government where 21% feel activities have become less ethical. They are closely followed by staff in the utilities, post and telecoms sector where 20% feel ethical standards have slipped.

The research also shows that most employers have some way to go before they can claim to be seen as ethical. The improvement of CEOs across the six dimensions of trust suggests that better visibility has led to a better understanding of CEOs by their employees. However, this understanding does not appear to extend to ethics.

Invisible ethics

It is often said that the ethical tone of an organisation is set at the top. But it is clear from the findings that employees have little awareness of their CEOs’ ethical views. Asked to rate how ethical their CEO is, 12% of respondents answered “don’t know”. When the employees were asked the same question about their organisation and their line manager, the “don’t knows” made up just 8% and 7% respectively of responses.

Economic circumstances may have shifted the focus onto other matters, but leaders must visibly demonstrate their ethical stance if they want to drive ethics through an organisation. Large organisations are rated the least ethical, which only reinforces the need for leaders to show where they stand on this issue.

Profits before principles

The research also asked whether employees feel their organisations are chasing financial goals at the
Section three: ethics and trust

expense of operating ethically. The findings are a cause for concern. There is a view that ethical shortcomings were at the heart of the last financial crisis and consequent global economic upheaval, and fuelled the erosion of trust in many organisations.

Worryingly, given the strong link between ethics and trust, half the people surveyed believe their organisation puts financial goals above ethical considerations, and 48% and 44% say the same of their CEO and line manager. Private sector employees are most likely to rate their organisation, CEO or line manager as prioritising financial goals over ethical operations, with men more likely to think that than women. It seems important lessons are yet to be learnt. A large proportion of employees still feel their organisations, managers and leaders put profits before principles. The challenge for today’s leaders is to visibly demonstrate that profit and principles can happily coexist.

Trust through ethics

Most forward thinking organisations already adopt an ethical stance. Yet these results suggest that leaders and managers are not getting their approach to ethics to stick throughout the organisation. Awareness and action are essential. It is one thing having ethical values and standards, but they need to be communicated throughout an organisation if employees are to be aware of these standards and act accordingly.

With the link between ethics and trust demonstrated by this research, there is an added impetus for managers and leaders to focus on setting and communicating the organisation’s ethical agenda. This means integrating ethical behaviour into the cultural fabric of their organisation.

The ethical tone of an organisation is, indeed, set at the top. That means CEOs and line managers have to take a visible lead in setting the ethical agenda. At all times they should act in a manner consistent with the ethical standards of the organisation and, crucially, be seen to do so. With ethics at the heart of their business, and communicated effectively, everyone will be clear what is expected of them from an ethical perspective.

This means, first, focusing on defining corporate values and behaviours, before embedding them across the business through policies, practices, training and internal communications. The challenge for leaders and managers is to not only embody those ethical values in their behaviour, but to consistently manage their staff to those benchmarks.

We should all be more ethical, not just because it’s the right thing to do, but because improving an organisation’s ethical approach also pays off with the added bonus of a trust dividend. That trust dividend feeds into employee engagement and workforce commitment, and thus improves organisational performance. That is a finding that no good manager or leader can afford to ignore.
Conclusion

We know that trust is central to organisational performance. As the key ingredient in employee engagement, high-trust leaders can motivate and empower their staff to a far greater degree, driving measurable improvements in performance and effectiveness. Which is why the six drivers of trust – ability, understanding, fairness, openness, integrity and consistency – are such critical competences for managers and leaders at every level.
Methodology

In the third annual Index of Leadership Trust survey, ILM and Management Today commissioned independent research company FreshMinds to explore the levels of trust in CEOs and managers, and to look at the role that ethics plays in shaping trust in leaders and organisations.

The research is based on a metric for trust in leadership, developed by ILM in 2009 for the first Trust Index, which has subsequently been used, unchanged, in 2010 and in 2011, to ensure comparability. This metric is based on a substantial body of academic research into the factors that determine leadership trust. By combining measures of leadership behaviour across these six dimensions with measures of the relative importance of each behaviour, the index is highly sensitive to respondents’ degree of trust in their leaders.

In 2010 the survey included additional questions to examine the impact of the recession on trust; this year, these questions were replaced by questions about ethics and the impact that the respondents’ own values and beliefs have on their perceptions of their organisations and their leaders.

The online survey was conducted between 24 May and 9 June 2011, and 2,516 respondents took part, a sample selected to be broadly representative of the UK employee population. Similar population samples were used in 2010 and 2009, making comparisons with previous years possible.

The sample was quota controlled to ensure an appropriate balance of managers and non-managers (in a 20:80 ratio) and public and private sector employees (40:60 ratio). Respondents split roughly 40:60 male to female, so women were slightly over-represented in the sample, but there were very few gender differences in the responses; any that were apparent are highlighted in the report. The age, ethnicity and regional distribution of the sample broadly reflects the UK workforce distribution.

Comparisons between the 2009, 2010 and 2011 samples demonstrate a general consistency in responses, year on year, confirming the validity of the index methodology. Movements in the index demonstrate real trends in leadership trust rather than erratic movements over time. In general, these are upwards movements, demonstrating awareness of the importance of the leadership behaviours that underpin trust. Where percentages do not add up to 100%, it is due to multiple answers, computer rounding and/or the exclusion of neutral, don’t know or not stated responses.

Constructing the index

The Index of Leadership Trust measures trust in relation to six defined dimensions of a trusting relationship. These dimensions are based on significant and robust research, and align with ILM’s framework of leadership and management – the triad of knowing, doing, being. The six dimensions are:

- **Ability** – the leader’s ability to do their job (knowing)
- **Understanding** – displaying knowledge and understanding of their employees’ roles and responsibilities (knowing)
- **Fairness** – behaving fairly and showing concern for the welfare of employees (doing)
- **Openness** – being accessible and receptive to ideas and opinions (doing)
- **Integrity** – striving to be honest and fair in decision making (being)
- **Consistency** – behaving in a reliable and predictable manner (being)

The survey asked respondents to assess the importance they placed on these six dimensions, allocating a total of 60 points across the six factors. Respondents were then asked to rate their CEO and line manager against these measures on a 10-point scale.

The relative importance the respondents applied to the six dimensions was applied to the scores. This ensured that the qualities considered most important in establishing trust were transparent. The resulting trust index scores range from zero to a maximum of 100.
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We offer a broad range of industry-leading qualifications and member services, to develop and support leaders of all levels, from first-line managers to CEOs. Last year, our network of over 2,000 expert learning providers helped more than 90,000 people to enhance their leadership and management capability with an ILM qualification. Currently, over 30,000 managers enjoy increased professional recognition and support through ILM membership.

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