TIE STONE

BOARD STUDY:

The Worth of Trust -

Part 1: Making the Implicit, Explicit

BASIL TOWERS, 2022

EXECUTIVE SUMMARY

This paper sets out how a company can be worthy of trust, the opportunity presented to trustworthy companies, and what a board should consider to ensure that trust is earned.

- My first recommendation is to focus on trustworthiness, not trust. To consider only trust is to look at the symptom and not the cause. Only by being trustworthy can we earn lasting trust. Trust without trustworthiness will be rapidly lost: the corporate landscape is littered with examples.
- Trust earned in this way has two benefits. It can be "foundational" if it is trust that you depend on to operate successfully. Or it can be "competitive" if it sets you apart from your peers. To lose foundational trust is destructive. To earn competitive trust is your advantage.
- Today, board members often believe that they already consider trust, because they handle it implicitly. To realise the true value of trust, however, it needs to be an explicit consideration. Doing so demands that the board considers four things:

01 **ASK** who you need to perceive you as worthy of their trust, locating the sources of foundational and competitive trust. This is most effective from the bottom-up, drawing on those, inside and outside the business, who understand your various stakeholders and relationships best

02 **ASK** the leaders and managers to put a value on that trust, setting out the short, medium and long-term benefits of being perceived to be trustworthy. In doing so, visibly align trust to long-term performance and value

03 **PRIORITISE** and make informed choices and trade-offs. Different trusting relationships and perceptions of trustworthiness have different levels of relevance and value over a range of time scales. Trustworthy businesses will view the world on a horizon that stretches into years and decades, not quarters

04 **FOCUS** on how leaders and managers will earn and prove that the business is truly worthy of trust, a day-to-day and end-to-end approach that always involves "reciprocity": acting in the interests of another first

- In pursuing this, the Board is vital in each of its facets: overseeing, advising and decision-making. The Corporate Affairs function is a critical source of support, bringing insight of the external context to bear on decision-making.

This paper sets out, at a high level, the true worth of trust. Its most important message, however, is that only those who are worthy will earn it. By addressing the questions set out in this paper, a board can contribute to ensuring that their business is worthy and so experiences the true worth of trust.

Part One: The Worth of Trust

TO BE WORTHY

For decades, Boeing was one of the most trusted companies in the world. Lauded for its peerless standards of engineering and safety, the company was a great American institution.

In 1997, things began to change. A merger with McDonnell Douglas saw executives focused increasingly on pushing up the share price, with high sales and low costs. In the process, Boeing's obsession with safety weakened. In 2019, this reached its tragic conclusion. A new plane, the 737 MAX, crashed, not once but twice, killing 346 crew and passengers. After initial denials, Boeing eventually paid a considerable price, with direct costs of $20bn and a further $60bn of indirect cost.

For years, Boeing had traded on the trust it had earned over its lifetime. In 2019, it lost that trust and the reason was simple: it was no longer worthy of it. This distinction – between trust and trustworthiness – has been made eloquently by the philosopher Baroness Onora O'Neill, and it is vital. To be concerned only with trust is to consider the patient's symptom and not the cause of their ailment. Far better, instead, to focus on being worthy of trust. When we are trustworthy, trust will follow. If we are merely trusted without being trustworthy, we live on borrowed time. Trust is indeed important. But it can only be achieved by first being worthy.

One institution might have kept Boeing on a steadier path: its board. However, rather than ensuring the company's managers were focused on the thing that was most critical to earning trust at Boeing,

"safety was no longer a subject of board discussion, and there was no mechanism within Boeing by which safety concerns respecting the 737 MAX were elevated to the Board or to any Board committee."

So, at least, reads a lawsuit filed by Boeing's shareholders against its Board.

FOUNDATIONAL AND COMPETITIVE TRUST

While writing this paper, I have interviewed Chairs at blue-chip businesses and Senior Partners at professional services firms. During our discussions, none have doubted that being trusted, and acting in a trustworthy way, matters to their business.

Their certainty is well-placed. To be trusted is critical to any business. To operate, every business depends on a network of mutual trusting relationships. After all, none can be sustainable for long without the trust of its employees, customers, suppliers, local communities, governments, and regulators. As the story of Boeing should remind us, losing trust by behaving in an untrustworthy manner can be extraordinarily damaging.

In this sense, trustworthy behaviour can be described as "foundational". It is the minimum expectation of a business. But trustworthy behaviour should not only be considered in this negative framing. To be trustworthy is to create a point of differentiation and competitive advantage, not just avoid disadvantage.

There is great benefit to be derived from behaving in a trustworthy way at every level, both for a firm itself and for its partners. A trusting relationship between a firm and its suppliers provides a steady income for suppliers, while incentivising them to be more creative and innovative and so enhance a firm's supply chain. A trusting relationship between a business and a government brings fresh investment to a country while lowering a firm's cost of doing business. A trusting relationship between an employer and their employees means better terms for workers and higher retention for the firm. A trusting relationship between a business and its customers means customers receiving a better product or service and a firm receiving lasting loyalty. And these are just a few of the benefits.

MAKING THE IMPLICIT, EXPLICIT

The Chairs and Partners I spoke to while preparing this paper didn't just believe that trust is important. Many also believed that they were already focused on it. An important distinction to draw, however, was how they were doing so. By focusing their efforts on things that make their businesses trustworthy, they believed that they were addressing the challenge, or opportunity, implicitly. My response is simple: what is currently implicit should now become explicit.

THE VALUE OF MAKING TRUST EXPLICIT

Recently, I worked with a UK-based, international FMCG company. My task was to help them realise the true value of trust. We asked three of the General Managers (GMs) who run their regional units to evaluate the potential impact of building greater trust with their stakeholders.

The GMs leapt to the challenge. They told us that higher trust would make it easier to:

WORK with local governments, with less risk of restrictive marketing regulation or punitive taxation

GAIN access to resources critical to their supply chain

WORK with suppliers, who would become more creative, helping them drive down costs and improve innovation in their supply chain

FIND partners for joint ventures

Perhaps most importantly, however, they made the implicit, explicit. The GMs did something they had never done before: they began to estimate a value, in terms of the impact on net sales, on the utility of reciprocal trust.

Part Two: Earning Trust

In the second part of this paper, I focus on how a business can crystallise the value of trust, the role of the board in ensuring this happens, and how Corporate Affairs is the critical function to ensuring success.

To derive competitive advantage from trustworthiness, every business should begin by asking itself four simple questions:

1. WHOSE TRUST DO YOU NEED?

There was a time, not all that long ago, when shareholder primacy reigned supreme. “The only responsibility of a business is to its shareholders,” wrote Milton Friedman in an article in the New York Times in 1970 that would define an era. Today, our understanding of a business and its network of responsibilities is far greater.

The first task, therefore, is to understand whose trust your business depends on. This is best approached with humility. Boards and senior leaders cannot know everything or understand the experience of everyone they seek the trust of. To gain the full picture on the wider impact of any given decision, this task should begin from the “bottom up”, drawing on the insights of those throughout an organisation. Sources of external insight and foresight into changing societal and geopolitical trends are also invaluable.

By following this process, the map of those you depend on will grow. But only by understanding the realities, agendas, beliefs and expectations of all those whose trust you depend on can you know where the opportunities, and vulnerabilities, lie.

2. WHAT IS THE VALUE OF NEWLY EARNED TRUST?

Once you know whose trust you rely on, you should seek to understand the value of that trust to your business. Remember again the division between foundational and competitive trust. Losing foundational trust will incur a considerable cost. Gaining competitive trust will unlock new sources of growth. The latter can only happen if the people that matter are persuaded to stop mistrusting the organisation first. Once more, this exercise should be delegated to those whose understanding of your stakeholders and relationships is greatest.

The possible benefits to future performance and long-term value will be various and often considerable, and again only those closest to the coalface will know. The questions they ask themselves should be simple. Where will we win more if we are on the front foot earning trust in our important relationships? What would happen if there was no trust? Only by putting a figure to questions like these does the true scale of your opportunity, in the short, medium and long-term, emerge.

It is worth remembering here that the benefits of trustworthiness will not realise immediately. It takes time for trustworthiness to translate to trust, and trust takes time to turn into a competitive advantage and performance.

3. WHERE SHALL WE PRIORITISE OUR EFFORTS?

By this stage, your list of stakeholders and the value at stake will be considerable. At this moment, therefore, you should prioritise your efforts, deciding what action to take today, what tomorrow, and what you might choose not to do at all. There will always be conflicts and you will rarely be able to satisfy everyone. But by drawing together the full picture, you can make informed decisions.

To see more of the research and evidence that underpins the recommendations in this paper, CLICK HERE.

There is a tendency in this process to prioritise the short-term over the long-term. It is one that the tyranny of the quarterly earnings call makes harder to overcome.

Trustworthiness and trust do indeed operate on different time lines. However, the benefits of earning trust will be felt in time. And the cost of losing it is felt too. Remember Boeing, who earned their trust slowly with their eyes fixed on the long-term. When they obsessed only on their next earnings call, they lost trust rapidly and perhaps irreversibly.

The board plays a particularly important role here, helping to reconcile the trade-offs between economic returns, company purpose and earning trustworthiness. It should also help balance investing time and resources with short and long-term impacts.

4. HOW CAN THEIR TRUST BE EARNED?

Once you know where to focus your efforts, you can determine how, exactly, the business will earn the trust of those who matter most to you.

Baroness O'Neill, in her work on trustworthiness, argues that trust is earned by being "honest", "competent" and "reliable". In every instance, these three principles hold true. They are hardly distinctive, however. To return to the distinction between foundational trust – the minimum viable level of trust – and competitive trust – trust that sets us apart from our peers – something greater is required.

In achieving this, we can turn to a concept borrowed from behavioural economics. Robert Cialdini, an expert in the science of influence, has shown the critical importance of "reciprocity" in generating trust between two parties. Put simply, reciprocity demands that we first act in the interests of another, even when it is seen to be against our own interests. Trust is earned by being seen to do the right thing, whatever the cost. It results from an understanding that business, and the world itself, does not demand that there are winners and losers. Instead, we have much to be gained by working together, not against one another. Business is as much about collaboration as it is about competition.

And, of course, it demands that businesses deliver. It means that businesses must do the small things right, keep their promises and seek continuous improvements to the way that they work. Critically, it means no over-exaggeration, no promises that can't be kept, and no disappointment, which is the death of trust.

> This is a view of the world, and a way of doing business, that not all embrace.
> But make no mistake: the trustworthy do.

Part Three: The Role of the Board & Corporate Affairs

THE ROLE OF THE BOARD

Fixing a company's sights on the further distance brings us to the critical role of the board, whose stewardship should guide a business in terms of decades and not quarters. A board's responsibilities are manifold, at times overseeing, at others advising, and sometimes decision-making too.

In this instance, the board should play all these roles. It should:

OVERSEE the process of answering the four questions set out above

ADVISE the Chief Executive throughout and help them prioritise

HELP the Chief Executive keep their focus firmly on the long-term, where the worth of trust will be realised

Ultimately, they should also **ASK**, always, is our Chief Executive making our company more, or less, trustworthy, and act accordingly

They must also ensure that questions of trust are placed in the right context, ensuring that a discussion of trust is set within the broader priorities of a business: its purpose, strategy, behaviour, and performance. Discussed outside of these, trust is simply an academic exercise, and loses its worth.

[1] For a more detailed set of guidelines for the board, click on the link here.

THE EVOLUTION OF THE CORPORATE AFFAIRS FUNCTION

If the board has a valuable role, the Corporate Affairs function is critical to ensuring that its debate and decisions are well informed.

In the past ten years, Corporate Affairs has begun a process of transformation. Once a Corporate Affairs professional was brought in after a strategic decision had been made, briefed only to communicate the message to a company's greatest advantage.

Today, at the best institutions, the role is changing. The reason is simple: the world is changing, and expectations of business are changing with it. In her excellent new book, Anthro-vision, the FT's Gillian Tett explains why "lateral vision" is vital to thriving in a world blinkered by those with "tunnel vision".

A good Corporate Affairs function gives a business that broader view, bringing the outside world in. It is the voice of challenge and change, monitoring the ever fluid context, and divining how an organisation is perceived by all of those whose trust it depends on. In doing so, Corporate Affairs becomes a crucial part of the machinery of a business. It sees and addresses blind spots, divides what matters in the world around you from what doesn't and holds a business to the standards set by the outside world and to its own promises.

[2] For a more detailed set of guidelines for Corporate Affairs, click on the link here.

To see more of the research and evidence that underpins the considerations in this paper, CLICK HERE.

CONCLUSION: TOWARDS TRUSTWORTHINESS

This paper, though short, intends to provoke new thinking. It seeks to offer a framework for those who want to understand not just whether they are trusted, but how to be truly worthy of trust.

After all, to focus on trust is only to focus on the symptom. This paper implores you to focus instead on the cause: trustworthiness. It gives boards four questions with which they can conduct their own diagnosis. The medicine might, at times, appear painful. But the result will be transformative. The patient will not just be cured of sickness. They will grow stronger than they have ever been before. That is the true worth of trust. But it will only be earned by those who have proved themselves worthy.

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