Boardroom Questions

Building Trustworthy Organisations

Why trust is an important business consideration

Maintaining the social licence to operate: 2018 KPMG - AICD Trust Survey

94%

of board directors agreed or strongly agreed that trust was important to their organisations' sustainability

45%

of directors reported that their board had to deal with issues that can affect trust in their organisation over the past year

23%

of directors said their boards receive meaningful performance metrics on trust in the organisation

Public trust is keeping our business leaders up at night. The erosion of trust in Australian institutions is not new and remains an issue of considerable public discussion and concern.

Directors, senior executives and the businesses they lead are being held to higher standards by regulators and the public. This is results in a wider range of stakeholders that organisations need to be trusted by. Being trusted by investors, employees and customers is no longer enough. The voices of those in the supply chain, people in local and regional communities that are directly or indirectly affected by the organisation's operations, for example, also need to be heard.

Organisational listening is a dynamic process which requires active governance. Leaders need to consider how inclusive their organisation is in listening - how is it hearing vulnerable stakeholders? How strategic are the responses to the issues that have emerged from that listening? Is the issue prioritisation process defensible? How authentic is the reporting to internal and external stakeholders on the listening and responding process?

Leaders no longer view trust as a by-product of their companies' conduct in the market, but as a condition for their business to operate in the first place. Trust is dynamic and as with all relationships it must be understood, maintained, and sustained overtime. The responsibility for this should no longer rest with a selected few who hold key stakeholder relationship roles, but rather, shared across the organisation.

Why business needs to invest in trust

The willingness of stakeholders to trust business has evolved.

Stakeholders are less willing to trust and less willing to accept negative impacts resulting from a company's actions.

In judging a company's trustworthiness, stakeholders consider not only their own views and experiences with the company, but also how *other stakeholders* view the company and report being treated by it. Expectations of businesses' are shaped not just from direct experience but increasingly they are shaped by our relationships and perceptions of others in communities of interest that are brought together by social media platforms.

New technologies and new business models are creating pressure around how organisations create growth. In an increasingly competitive landscape, where consumers, investors and employees are bombarded with choice and expect more from business, building a trusted organisation is more important than ever.

Too often, the implementation of responses to trust failures takes place well after the issues have emerged, once trust has already been eroded.

Proactively listening to stakeholders to identify, understand and prioritise the issues that affect trust remains a challenge. When the issues are known, many organisations underestimate their severity or impact, do not yet have adequate processes for escalating them to the appropriate level, or to respond in a way that produces sustained trustworthy conduct at a whole-of-business level.

Characteristics of trustworthy organisations

Stakeholders trust organisations that they perceive to have three key characteristics:

1. **Ability**: The collective knowledge, skills and competencies that enable the organisation to function reliably and effectively in delivering its products and services and meeting its goals and responsibilities. Ability is specific to the domain requiring trust. So we may trust an organisation in one way (e.g. for high quality products) but not in another way (e.g. for efficient customer service).
2. **Humanity**: Exercising benevolence and a ‘duty of care’ to those affected by the organisation’s operations, products and services, and at a minimum ‘doing no harm’. Humanity involves having a positive orientation towards stakeholders that goes beyond a profit motive. For example, by demonstrating an awareness of and a commitment to meeting stakeholders’ interests, and showing genuine concern for their well-being.
3. **Integrity**: Consistent adherence to commonly accepted ethical principles and moral values, such as honesty, fairness, promise fulfilment, taking responsibility for one’s actions, and operating within the law. Integrity is also demonstrated by living by one’s values and ‘walking the talk’.

Elements that build trust

1. **Purpose and strategy**: Defining a clear purpose and strategy with trust-inducing core values that benefit society and accommodate stakeholders’ interests.
2. **Culture:** Ensuring shared values, beliefs and norms foster constructive trust-inducing behaviour aligned with the organisation’s purpose.
3. **Leadership and management:** Empowering leaders who embody the organisations’ values and purpose, and hold themselves and others to account for trustworthy conduct.
4. **Governance and structure**: Designing a formal organisation and governance system that sets clear roles and accountability, and provide discretion within prudent oversight.
5. **Systems and processes**: Leverage and align planning, management, HR, reporting and compliance systems to reinforce trustworthy behaviour in line with the legal and regulatory context.
6. **Products, services and operations:** Ensuring that processes meet stakeholder’s needs and expectations, uphold the organisations’ values and adhere to relevant legislation.

Questions for Boards to consider

1. Do we have a clearly articulated purpose that shows how our company creates value for society? How well do we embrace our purpose beyond profit and communicate it to our internal and external stakeholders?
2. Do we regularly take stock of our culture and use the resulting insights to actively shape and manage beliefs, values and norms?
3. Do leaders and managers at all levels ‘walk the talk’ by role modelling trustworthy conduct, upholding the company’s values, and leading with purpose?
4. Does the governance structure provide adequate accountability and monitoring at all levels to ensure competent execution in a manner that upholds company values and manages stakeholder risk and vulnerabilities? Are there meaningful metrics that
5. Are there robust and trusted mechanisms that surface and respond to issues impacting on trust before they escalate. Do these mechanisms also provide meaningful reporting to the board of the effectiveness of responses to issues impacting on trust?
6. Are design, development, and production processes serving both company and stakeholder interests (e.g. customers, suppliers, regulators, affected communities etc.)?

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