MARKETS

Making Trust an Organizational Capability

A CEO Task in Building Value

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A global crisis of trust is having a profound impact on the relationship between civil society and business. The crisis is most evident in politics, with populist movements on left and right winning support on a platform of hostility to 'elites' and globalization. These movements, which are tapping into latent anger at staggering living standards, are turning people against the business community, with particular ire for global multinationals.

The implications for business are significant as populist movements exert more power (directly and indirectly) and policies that will hurt the creation of value become more likely to be enacted. Already, politicians are calling for greater regulation of business and promoting protectionist measures. On taxes, the European Union's drive to recoup 13 billion euros ($1.4 billion) from Apple (despite the objections of the Irish government) illustrates the political attraction of making a stand against big business. The Brexit campaign in the UK was buoyed by a distrust of experts and elites, fuelling a result that was opposed by much of the business community.

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Trust From a Business Perspective

The business world's understanding of trust stems from three sources: (i) the interaction with fellow employees; (ii) the experience behind the company; and (iii) the market sector it inhabits. It is well recognized that trust is a key determinant of value. In a recent PwC survey of global CEOs, more than half of the respondents cited a lack of trust in their business as a barrier to the future growth of the organization.

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Trust can create and destroy value. Low trust creates costs, inefficiencies and waste. It inhibits the ability of a business to take a calculated risk and encourages a more risk-averse strategy. Low trust can also impact productivity: a 2014 study of a major businesses found that 45 percent of employees report that a lack of trust in the leadership of the business was the biggest issue impacting their performance at work.

While low trust is undeniably a barrier to business growth, high trust can create value. Highly trusted businesses can secure competitive advantage in multiple spheres. A business that enjoys high trust across all three criteria (interpersonal, organizational, sectoral) has a freedom to make decisions and take risks that would not be viable for other companies. Trust is an asset in helping to deliver strategy more effectively; unburdened by concerns over trust, business can focus on execution.

Trust is invariably a key asset in the transition from one business model to another, or in the growth of a new sector. In a piece for *The Financial Times*, Tim Harford observed that the success of Airbnb, eBAY and Lyft is based on individual consumers trusting people they have never met. The sharing economy is flourishing because of the development of mutual trust between individuals, with businesses simply acting as the facilitators.

Despite all the evidence of its importance, relatively few CEOs have a strategy for building trust. Warnings have sometimes been ignored while others have placed it in the 'too difficult box,' citing the external political environment as proof that all elites are distrusted and it is futile to try and strike out alone. Rather than avoidance, a constructive approach for CEOs is to make building trust a critical organizational capability.

The Building Blocs

Business leaders need to focus on four building blocks to strengthen trust: (i) the capability to deliver for customers and shareholders; (ii) the alignment of practices and high ethics; (iii) the transparency of its practices; and (iv) the reciprocity it practices for loyalty. These building blocks are shaped by the decisions, actions and behavior of the business. Managing trust should be an organizational capability. It is something that an entire business has to get right in order to succeed. Thus, CEOs cannot delegate responsibility for building trust to corporate affairs or any other department.

Managing trust needs to be addressed systematically and culturally. It should be embedded into all the constituent parts of the business: within strategy and planning; within organizational design and the operating model; within risk management and as the outcome of culture and individual capabilities. Trust and reputation performance should be subject to oversight and governance.

Strategy and Planning

Formulating strategy should benefit from stakeholder insights and contextual intelligence, and the management of trust should support the execution of strategy and resource decisions. Annual operating plans of the business will be tested against the building blocks of trust so actions with the potential to damage trust are debated and mitigations created.

Trust and reputation risk assessment should be part of stage gate processes.

CEOs should require a consideration of trust to be embedded in the implementation of end-to-end decisions and processes across the value chain. Managers should be required to demonstrate an assessment of the impact of trust on their ability to optimize costs, reduce waste and maximize resources.

Consideration of trust should be integrated within existing risk oversight and governance. CEOs require visibility and clarity on who is accountable and who is responsible for anticipating, quantifying, mitigating or managing the trust and reputation risks that have the potential to impact the business.

The opportunity within organizational design is to ensure that accountabilities, responsibilities and if required, delegated authorities for shaping trust, are visible and at the right level. The structure should enable systematic identification and escalation of trust issues and performance, as well as effective oversight and governance.

The Importance of Culture

If trust is shaped by personal experience, leaders should maintain an understanding of the degree to which culture and the outcome of the values being lived is strengthening or undermining the integrity, or authenticity, of the business. CEOs should hold their leadership team to account for their individual and collective impact on culture including their impact on trust in the business.

The capability to understand and build trust should become a leadership capability thus reflected in development, career progression and succession planning. Including it within the curriculum for high performing development programs will position it as an essential capability.

The board should seek assurance on the degree to which trust is reflected within delegated authorities and governance policies and standards and the extent it is subject to compliance and audit.

There are also opportunities to improve the quality of the trust and reputation intelligence and indicators they receive. Do they allow an assessment of whether the building blocks of trust are being managed in a way that supports growth?

A Determinant of Growth

Mapping, interpreting, prioritizing, understanding and tracking stakeholders of value and their expectations, as well as predicted and actual behavior, will become critical competencies in measuring the impact of trust on a business.

In a world where there are many things outside of the control of business leaders, trust is one determinant of growth and value that a CEO can influence and exercise a degree of control over.

While the external political climate will remain cool (and sometimes hostile) towards established businesses and elites, recognition that trust in your business can be built and influenced is the critical first step.

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Trust is a valuable asset, one that can help an organization to transition to a new business model and gain competitive advantage. Trust can help CEOs to execute strategy more effectively and confidently, and managers optimize efficiencies. Moreover, highly trusted companies are better equipped to manage issues and take more calculated risks in the future.

Taking the building blocks of trust and turning this into an organizational capability is a significant and complex undertaking, but with the value it can deliver, we believe it is one that will be embraced by many more business leaders in 2017 and beyond.