Whitepaper

Trustworthy by design

A practical guide to organisational trust

—

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Foreword

"The rebuilding of public trust in our institutions is, I believe, the defining challenge of our time."

Over the past two decades, we have seen public trust, in all manner of organisations, crash to new lows.

History has shown that the occurrence of unanticipated events may lead to a vast decline in organisational trust. The events of COVID-19 have been no exception. The world currently finds itself facing a crisis that not only impacts our current operations, but will have lasting repercussions for the foreseeable future. How organisations react during these times can have a significant impact on their longevity. Stakeholders continuously look at leadership to provide solutions and explanations for risks, and uncertainty in order to gain insight into what to expect. This magnifies the concern that a lack of stakeholder trust can present a significant barrier in an organisation to be effective.

That is largely because we rely on trust to lubricate the intricate gears of society. We will not achieve meaningful social progress or sustainable growth without it. It is what makes our complex world function.

So the old challenge — convincing organisations that the management of trust is a concrete issue requiring real attention and resources — is largely conquered. The new challenge is forging a constructive understanding of how the trust problem can be tackled.

The ability to link the hard and soft side of business is an integral part of the solution. Simply complying with rules and regulations is no longer sufficient. However, embedding soft controls in the organisational infrastructure to enhance integrity can significantly improve trustworthy conduct.

Combining principles from compliance and integrity is the key to rebuild organisational trust.

That is why we, at KPMG, aim to help organisations take integrity and compliance from paper to practice. The ideas presented in this report, led by KPMG and Professor Nicole Gillespie from the University of Queensland Business School, can assist businesses to achieve this.

The ideas outlined in this report show that any organisation serious about building durable trust over the long term will need to design strategies at the top that are painstakingly constructed throughout the organisation, brick by brick.

Or perhaps the better analogy is branch by branch, because when it comes to trust, we all operate in a truly interconnected — and slightly chaotic — ecosystem. An initiative aimed at one stakeholder group can have profound and unanticipated effects on another.

Ultimately, of course, business leaders must make peace with the idea that the task of restoring and maintaining trust is one that will never be completed. Societal expectations will continue to evolve and companies will have to evolve with them.

The organisations that establish sophisticated cultures and infrastructure capable of responding dynamically, as explained in this report, will be the organisations that survive and thrive.

Introduction

"Why do some organisations earn and sustain a reputation for trust over time, while others become embroiled in trust scandals? Our research indicates the difference lies in how the organisation is designed."

While simple, this perspective is powerful and highlights why many organisations struggle with trust.

Most organisations take a piecemeal, reactive approach to managing trust that keeps them on the back foot. Typically, responses are reactive, occurring well after trust issues have emerged and after trust has been materially eroded. These responses are often narrowly focused on those directly affected, without consideration to the broader range of stakeholders who collectively influence the organisation's reputation. Over time, this has been evident in many organisations, attempting to use a cover up or 'Band-Aid' method to try and reduce the damage of the individual incidents and scandals. However, multiple attempts to repair the company's image frequently fail due to the loss of public trust in the brand.

So what does a practical alternative look like that designs trustworthiness into the DNA of an organisation? This is the question we have sought to answer.

This report is written for senior executives and board members of organisations who want to strengthen trust in their businesses and more importantly, sustain it over time. We have drawn on decades of our own trust research as well as the now extensive interdisciplinary body of scientific knowledge on trust. We have then integrated this knowledge with the practical experience and insights of a diverse range of our experts who, collectively, have worked with hundreds of corporations on the prevention and management of trust issues.

Our aim is to describe what a strategic, effective, whole-of-business approach to managing and preserving organisational trust looks like.

To do this, we break down organisational infrastructure into key components and show how each plays a unique role in driving or undermining trustworthy conduct.

We provide practical questions for assessing the trustworthiness of your organisation, along with strategies for designing and aligning organisational infrastructure to engender trust.

We recognise that in an interconnected age, an organisation's reputation for trust comes from a complex stakeholder ecosystem, making a multi-stakeholder approach critical to meeting trust expectations.

We advocate for a proactive approach based on evidence that major trust failures within and by organisations are predictable and preventable. We argue trustworthiness needs to be strategically embedded into the organisation and outline a process for identifying, understanding, and prioritising issues that affect stakeholder trust.

The principles and best practice guidelines recommended in this report are neither quick nor easy to implement. We believe they are, however, key to achieving a resilient and sustainable reputation for trust.

The business case for trust

You cannot innovate or grow without trust

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

— Failure to gain trust in the market has consequences for launching new products. If an organisation wants to innovate or enter a new industry, it first needs to build trust.

— Trust enables people and organisations to innovate, co-create, take risks, experiment, and rely on and invest in others[i]. This is evident from Amazon's continued expansion in the European market.

— Stakeholders are more committed to and more likely to endorse and promote organisations that they trust, and customers are more willing to pay a price premium[ii].

— Trust affords influence. Customers try new products and services, employees follow leaders, and regulators and the public accept information on face value when it is from a trusted source[iii].

— Stakeholders show a preference to purchase, invest, work in, and partner with organisations that have a reputation for trust[iv].

Trust is crucial to organisational agility, transformation and resilience

— Trust helps organisations to embrace and navigate disruption, whether it be from technology or economic shocks[v].

— Trust facilitates higher quality knowledge exchange, problem-solving, decision-making and performance[vi].

— Sustained trustworthy conduct brings reputational advantage and underpins the social licence to operate[vii].

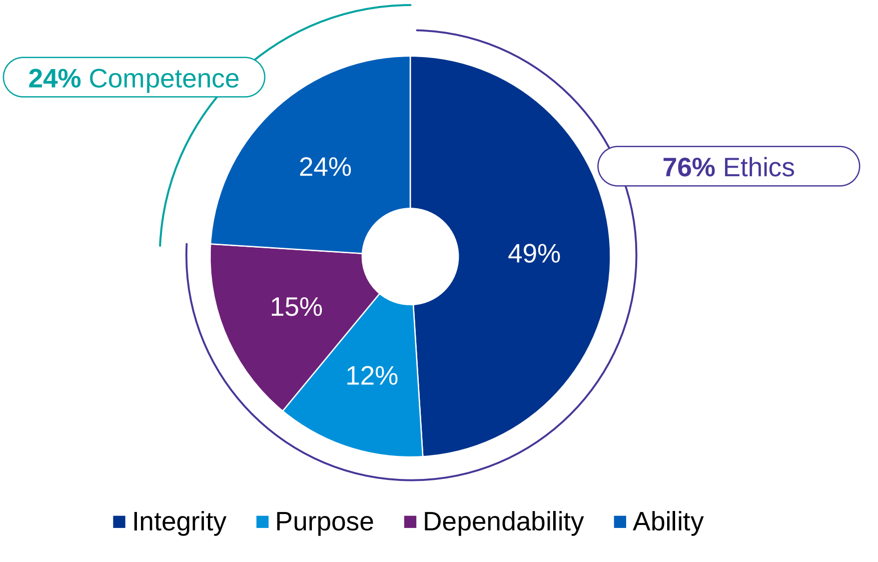
— Trust is associated with stronger revenue and profit, and lowers the cost of doing business[viii ix x].

— A reputation for trust can be a source of sustainable competitive advantage that is difficult for competitors to imitate[xi].

Importance of company trust vs competence

According to the [2020 Edelman Trust Barometer](), ethical drivers are three times more important to company trust than competence.

The chart below depicts the percentage of predictable variance in trust explained by each dimension.



However, trust is not a panacea

Unwarranted trust can lead to excessive risk-taking, harm and loss. Trust needs to be based on a strong evidence of trustworthiness[xii].

What is a trustworthy organisation?

Trust is best defined as the willingness to be vulnerable to the actions of another party based on positive expectations of the intentions or behaviour of that party[xiii].

A company's reputation for trustworthiness is influenced by the trust held throughout its stakeholder ecosystem. This includes:

- Customers
- Employees
- Investors
- Suppliers and partners
- Regulators and policy makers
- Communities influenced or impacted by its operations
- Citizens and the general public

The reason these stakeholders are best understood as an ecosystem is that their trust in a given company affects other stakeholders. Trust changes within one stakeholder group will almost certainly impact upon another. It is therefore impossible to draw neat boundaries between these groups in the context of trust.

Leaders looking to create and sustain a high-trust organisation therefore need to start from fundamental principles, and understand how trustworthiness is gauged in a broad sense by all stakeholders.

Three characteristics of a trustworthy organisation[xiv]

Stakeholders trust organisations they perceive to have three key characteristics:

1. Ability

"I can rely on you to be competent"

It is the collective knowledge, skills and competencies that enable an organisation to function reliably and effectively to deliver its products and services, and meet its goals and responsibilities. Ability is specific to the domain requiring trust. We may trust an organisation in one way (e.g. for high-quality products), but not in another (e.g. for efficient customer service).

2. Humanity

"I believe you care about your stakeholders"

It involves exercising benevolence and a duty of care to those affected by the organisation's operations, products, and services. At a minimum, this means doing no harm. More broadly, humanity involves having a positive orientation towards stakeholders that goes beyond a profit motive.

3. Integrity

"I trust you will do the right thing for the right cause"

Integrity encompasses consistent adherence to commonly accepted ethical principles and moral values, such as honesty, fairness, promise fulfilment, responsibility for one's actions, and operating within the law. It is also demonstrated by living the expressed values.

Research indicates that if any one of these characteristics is missing, it undermines perceptions of trustworthiness[xv].

A model of organisational trust

> “A reputation for trust demands the creation and maintenance of an organisational infrastructure designed to reliably produce trustworthy conduct.”

Research into high-trust organisations, along with case studies of trust failure and repair across multiple sectors, suggests six elements are central to designing trustworthy organisations[xvi].

Organisations that embed trustworthiness — ability, humanity, and integrity — into the six elements of their infrastructure, shown in the diagram on the subsequent page, earn sustained reputations of trust among their stakeholder ecosystem.

Most organisations have some elements of their infrastructure designed to produce trustworthy behaviour. However, a common problem is that a piecemeal approach is taken, with critical elements or parts of the business overlooked. This results in conflicting signals about what is expected, prioritised, and valued. These ‘alignment challenges’ can inadvertently incentivise dysfunctional behaviour, processes, and culture, which can escalate into trust failures.

Leaders and employees are typically aware of these alignment tensions. However, often these problems are left unresolved, exposing the organisation to conduct and reputational risks.

To reliably drive trustworthy behaviour and protect a company’s reputation, leaders need to design and embed trustworthiness into all six elements of organisational infrastructure in a way that is congruent and mutually reinforcing across the business. That is, a whole-of-business approach, rather than a piecemeal approach, is required.

On the following pages, we will:

- discuss each element and its role in driving trustworthy conduct
- pose a set of questions to help you assess the trustworthiness of each element of your organisation
- highlight common challenges when designing for trust
- provide insights for navigating these challenges

Organisations that design trustworthiness — ability, humanity, and integrity — into all elements of their organisational infrastructure earn sustained reputations of trust.

Products, Services & Operations

Processes that ensure stakeholder needs and expectations are met, values are upheld, and legislation is adhered to

Purpose & Strategy

Clear purpose and strategy with trust-inducing core values that create value for society, and accommodate stakeholders' interests

Systems & Processes

Leverage and align planning, management, HR, reporting and compliance systems to reinforce trustworthy behaviour in line with the legal and regulatory context

Culture

Shared values, beliefs and norms that foster constructive trust-inducing behaviour aligned with the organisation's purpose

Governance & Structure

Formal organisation and governance that set clear roles and accountability, and provide discretion within prudent oversight

Leadership & Management

Leaders who embody the company values and purpose, and hold themselves and others to account for trustworthy conduct

Adapted from Hurley, R., Gillespie, N., Ferrin, D. & Dietz, G. (2013). Designing Trustworthy Organizations. MIT *Sloan Management Review*, 54 (4), 75- 82; and Gillespie, N. & Dietz, G. (2009). Trust repair after an organisation-level failure. *Academy of Management Review*, 34 (1), 127-145.

1. Purpose and strategy

An organisation's purpose is best defined as how it creates value for the people it serves, above and beyond generating return on investment.

While strategy focuses on setting objectives for a specific period, a purpose is long term, and sets the tone for the organisation's culture and brand.

Together, purpose and strategy communicate the organisation's values and priorities.

The coherence and effectiveness of the strategy, and the alignment between the organisation's actions and its stated purpose affects stakeholders' perceptions of trustworthiness.

Purpose and strategy also signal the extent to which employees are expected to act with integrity and humanity towards stakeholders, and how responsibilities to multiple stakeholders are to be balanced.

Key questions to consider:

- Do we have a clearly articulated purpose that shows how our organisation creates value for society?
- How well do we embrace our purpose beyond profits, and communicate it to our internal and external stakeholders?
- To what extent are our organisation's purpose and responsibilities to multiple stakeholders aligned with our strategy, and embedded throughout our infrastructure?
- Are decisions made and resources allocated in a way that shows integrity and humanity towards stakeholders?
- Do stakeholders think our strategic trade-offs are made transparently and fairly?
- Are we developing the competencies required to achieve our purpose and exceed the stakeholders' expectations in the long term?

The challenge of balancing responsibilities to multiple stakeholders:

A common cause of corporate trust failures is a strategy that focuses myopically on serving the interests of certain stakeholders (e.g. investors and executives) while being indifferent, or sometimes detrimental to other stakeholders (e.g. customers, affected communities).

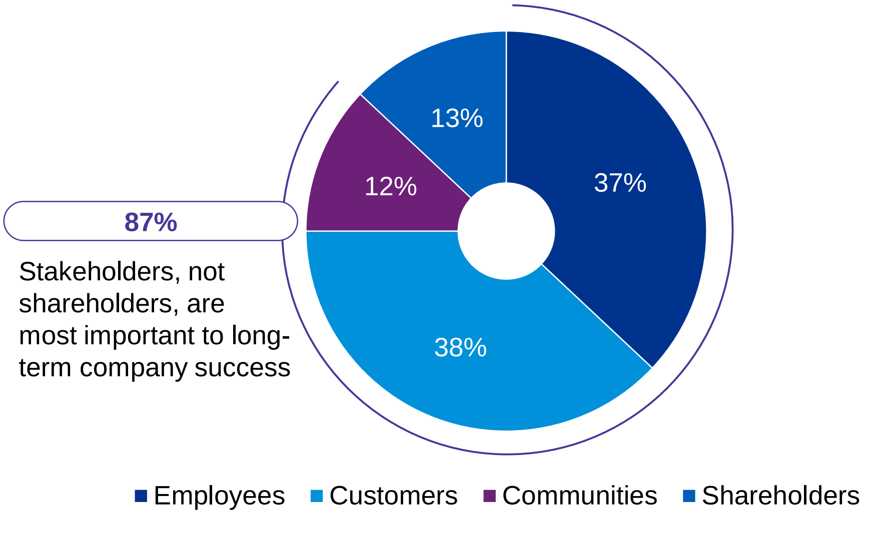
Corporates are not typically set up culturally, politically or structurally to take a truly multi-stakeholder perspective. Rather corporates are often designed to prioritise shareholders' interests. However, this is shifting both within the Netherlands and internationally. Recently, the US Business Roundtable released a new Statement on the Purpose of a Corporation which commits to serving and creating value for all stakeholders. This statement, signed by 181 CEOs, reverses the previous 1997 statement which endorsed principles of shareholder primacy[xvii]. Revisions to the UK Corporate Governance Code similarly emphasise corporate purpose and responsibilities to a wider range of stakeholders. Closer to home, the Dutch Corporate Governance Code highlights the interests of stakeholders as one of the six core focus points for the development of long-term value creation strategy for organisations.

In many cases, leaders experience tensions in managing and reconciling the diverse and sometimes competing interests, expectations, and responsibilities to the organisation's evolving set of stakeholders. In some cases, leaders are well aware of the strategic trade-offs made between stakeholders' interests, but take an indifferent approach to managing the latent impacts and trust issues these choices.

Although challenging, upholding the company's responsibilities and 'duty of care' to its stakeholders is critical to trust, and central to demonstrating humanity and integrity. This is not about meeting every stakeholder's need. Rather, the focus is on the organisation's core purpose and associated responsibilities, and managing the expectations, risks and vulnerabilities that achieving this purpose opens up for stakeholders.

As shown below, according to the results of the 2020 Edelman Trust Barometer, incorporating the interest of all stakeholders is essential in the long-term success of the company.

Those who ranked each group as most important (in %)



Those who agree (in %)

73% A company can take actions that both increase profits and improve conditions in communities where it operates

Building trust and communicating strategy through transparent integrated reporting

The International Integrated Reporting Council's (IIRC) principles provide organisations with a framework to better explain how they balance stakeholder interests when determining their strategy, allocating resources and delivering value for the short, medium and long term.

An integrated report clearly explains how the organisation uses scarce resources and key relationships (with all stakeholders) through its business model to deliver on its strategic priorities and create value. It explains how the board:

— is aligned with the long-term interests of security holders, customers, employees and other stakeholders;

— is focused on the right matters to ensure long-term success; and

— oversees and, where necessary, directs management effectively.

2. Culture

The assumptions, beliefs, values, and norms contained in an organisation's culture influence how employees think about and enact their work.

Employees quickly figure out what their employer really values and the culture is more influential than any stated purpose, strategy, system or policy in driving employees to act in more or less trustworthy ways.

For example, a culture of innovation and continuous improvement fosters organisational competence in achieving its purpose, whereas a culture of maximising profit or winning at all costs fosters short-term thinking and ethical shortcuts.

Trustworthy organisations understand that culture is powerful and dynamic, and requires proactive management and measurement to ensure it is driving trustworthy conduct.

Creating a culture that supports trust requires having principle-based conversations across the organisation, including about purpose, responsibility to stakeholders, risk and compliance. For people to make decisions that ultimately support the purpose and trustworthiness of the organisation, they need to recognise and explicitly discuss tensions, such as those between risk management and agility, between the competing responsibilities to different stakeholders, and between maximising profitability and doing the right thing.

Leaders and managers must not only encourage this type of conversation, but also consistently embody and reinforce strong company values around ability, humanity, and integrity, and challenge assumptions, beliefs and norms that undermine these values. They must genuinely support a culture that identifies and actively deters untrustworthy conduct, and fosters employees to feel psychologically safe and empowered to raise concerns.

Key questions to consider:

- Do we proactively define, manage, and take stock of our culture, and ensure it aligns with our strategy and purpose?
- Do we strategically use HR processes to select and socialise people to build our desired culture? Is culture a key part of our assessment and promotion processes?
- Are values translated and activated across the organisation so that employees support the organisation's purpose and mission, beyond self or sub-group interests?
- Do cultural values and beliefs unify people to serve stakeholders well?
- Are the values of respect (humanity), integrity, and ability deeply held such that acting against them would feel wrong and uncomfortable?
- Do staff feel safe to raise concerns in a timely way?

The challenge of aligning culture and behavioural drivers

Culture is now regarded as one of the most material risks of an organisation. Poor culture has become an early warning sign of broader organisational issues.

‘The presence or absence of 'soft’ behavioural drivers and controls have a major impact on the operating effectiveness of ‘hard’ controls (such as processes, policies and rules), and are usually the root cause of financial, operational and reputational risks. This is why compliance systems that are misaligned with the culture rarely work.

However, the informal, dynamic and dispersed nature of culture makes it an ongoing challenge to manage and align embedding trustworthy conduct across the organisation.

Once socialised into a culture, it becomes difficult for leaders and employees to see its influence; they become the proverbial ‘fish in water’, coming to accept the cultural beliefs, assumptions and norms as ‘normal’ and ‘natural’.

Given the changing regulatory and governance expectations, boards and executives need to be prepared to answer questions on how they actively monitor and shape the organisation’s culture to ensure ethical conduct. Regular proactive efforts need to be in place to evaluate, shape and align culture with the organisation’s broader purpose and strategy, and formal control mechanisms, to ensure stakeholders’ trust-related expectations are met.

Implementing cultural dimensions

Our scientific research shows that eight cultural dimensions (also called soft controls), as described below, can have a real or potential effect on behaviour. These generic controls form the base of an organisational culture and influence the actual behaviour of people. When the culture of an organisation is strongly driven by these dimensions, the likelihood of desired behaviour increases and the risk of undesirable behaviour is mitigated.

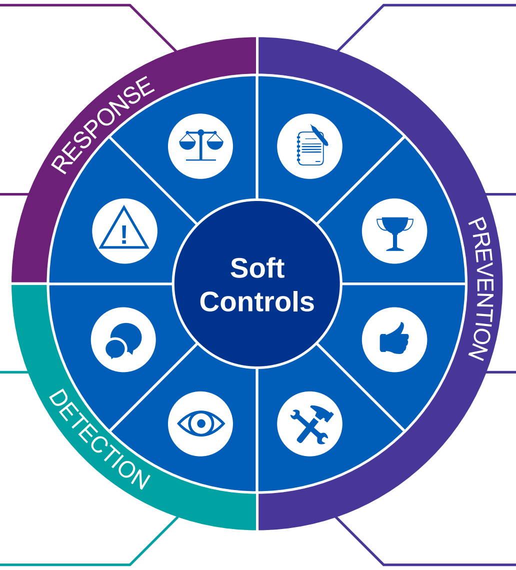
The absence of any of these dimensions is likely to impact the effectiveness of the set of cultural dimensions as a whole. The culture model is used in the analysis of the ethics/compliance culture and/or risk awareness. This model was developed 25 years ago on the basis of a scientific research by Muel Kaptein, professor in Business Ethics and founder of the KPMG Integrity team.

ENFORCEMENT
refers to the degree to which employees are sanctioned for unethical conduct and rewarded for ethical behaviour.

COMFORT TO REPORT MISCONDUCT
refers to the degree to which employees can address alleged unethical behaviour.

OPENNESS TO DISCUSS DILEMMAS
refers to the degree to which employees talk about ethical dilemmas.

TRANSPARENCY
concerns the extent to which ethical or (un)ethical conduct to employees and its effects are manifest.



CLARITY
refers to what extent employees know what the rules and regulations are regarding ethical conduct.

ROLE MODELLING
refers to the degree to which management sets a good example (role model) for its employees.

SUPPORT OF EMPLOYEES
refers to the motivation of employees and management to uphold the norms, values and standards of the organisation.

ENABLING ENVIRONMENT
concerns the degree to which employees are enabled to meet the expectations regarding ethical behaviour.

Added value of cultural dimensions

A strong ethical culture leads to a decrease in unethical behaviour by 40% (on average for all types of unethical behaviour). The most severe types such as market abuse, corruption and fraud are reduced and better mitigated through a sound culture (Kaptein, 2010).

See some additional advantages on implementing a culture model.

Performance

The culture model has been shown to impact the performance of hard controls and bottom-line business performance measures such as profitability, customer satisfaction and sales.

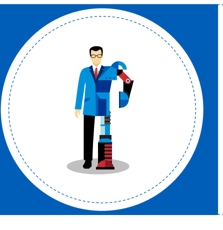
Engagement

Improving the cultural dimensions can lead to higher employee morale, commitment, productivity, and tenure, as well as to better physical health and emotional well-being.

Agility

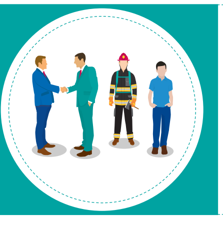
Ultimately, groups with dysfunctional cultural dimensions are unlikely to adapt to change, and may not survive over the longer term.

Change



If new ways of working are to be introduced, the cultural support barriers to change need to be identified and addressed.

Community



Cultural dimensions of an organisation influence its impact and footprint on its surrounding environment.

How can you measure culture?

The mechanisms institutions have used to self-assess and evaluate their culture have varied. However, many have relied on one-dimensional surveys as the primary source, thereby missing the rich insights available from broader data held within the organisation. Given the multi-faceted, complex nature of culture, the solution is to adopt a multi-pronged approach.

A suggested approach is to divide the culture assessment into three phases – preparation, execution and reporting. The activities per phase are shown below, along with a short description of each activity. Financial regulators believe that assessing people's perceptions of culture is key as perceptions influence and direct behaviours.

Therefore, perceptions are a primary source of information for the supervision of behaviour and culture, and for our plan of approach.

We consciously choose an approach that includes both quantitative and qualitative methods. Our experience has shown that by deploying various methods, you will get a better understanding of the current culture. Furthermore, it will improve the likelihood that stakeholders feel involved in the topic when partaking in the culture assessment on different occasions. This will lead to a solid foundation for any future work/steps in the area of culture for the organisation.

1. Preparation

- **A kick-off meeting** will be held to discuss the scope and planning of the culture assessment, and decide on who all to involve, what relevant information we need, and how to inform employees about the culture assessment and its progress.
- **Desk research** will be carried out to assess the existence and quality of policies, procedures, actions and other relevant documentation regarding culture.
- **In-depth interviews** will be conducted with key stakeholders to better understand the programme of actions undertaken in the past couple of years.

2. Execution

- **The Culture Thermometer** will be used to assess the quality of the current culture of the organisation, using an employee survey based on the culture model set out on the previous page. The output will give insights into the current perceptions of employees regarding the culture, benchmarked against comparable companies in the industry.
- **In-depth interviews** with key stakeholders will be conducted to better understand the current culture and Culture Thermometer results.
- **Focus group sessions** will be held with some of the employees to debrief sentiments expressed about the culture and the results of the Culture Thermometer, to apply environmental context and generate suggestions for next steps/actions.

3. Reporting

- **A report** will be prepared on how well the culture is positioned based on the results of the aforementioned activities. This report will include recommendations (if needed) for next steps in the area of culture for the organisation. Where relevant, we will share insights, experiences and suggestions from other similar organisations.
- **The report will be discussed** with internal stakeholders to understand draft results and determine possible next steps.
- **The report will be finalised** with internal stakeholders.

What is the Culture Thermometer?

The Culture Thermometer is an online survey that provides a quick and valid overview of the culture of your organisation. Based on the outcome of the survey, you can decide whether the culture should be improved and where to focus on.

By repeating the survey on a later date, you can determine the effectiveness of your follow-up actions. We can also benchmark the results of your organisation against results of similar organisations.

3. Leadership and management

Leaders symbolise and shape the culture and conduct of the organisation.

This is especially true for senior leaders, who are the organisation's representatives to external stakeholders. Leaders communicate what is expected and how it is to be achieved, including whether untrustworthy conduct might be tolerated or even tacitly encouraged.

An employee's relationship with their immediate leader or manager acts as a lens through which they interpret the organisation. This relationship strongly influences the employee's trust in the organisation. What local leaders and managers direct, role model, authorise and condone is a critical driver of trustworthy conduct at work.

Leaders who actively develop and maintain positive relationships with their teams and more broadly across their organisation — and demonstrate humanity and integrity — help build an effective culture of trust.

Key questions to consider:

- Do leaders and managers at all levels 'walk the talk' by role modelling trustworthy conduct, upholding the company's values, and leading with purpose?
- Do leaders and managers hold their teams accountable for trustworthy conduct and competent execution while upholding the company values? Do they call out and manage poor conduct?
- Does management serve stakeholder interests before self-interest, act with integrity, and competently deliver on commitments and responsibilities?
- Does management communicate openly with employees, and listens to them?
- Does management demonstrate care and concern for employees, and trust in them?
- Are leaders and managers rewarded for trustworthy conduct, and, conversely are there clear consequences for violating company values?

Setting the ‘tone at the top’

The behavioural culture of an organisation is a lot less tangible than the financial position of an organisation and is therefore more difficult to observe. This emphasises the importance of the behavioural stance that management and leadership take in setting the ‘tone at the top’.

The ethical atmosphere created by management and leadership will have a ripple effect on employees in the organisation. Behaviour embodied by ethics and integrity will encourage employees to uphold the same values. The same applies to the contrary; if employees sense that ethics and integrity are not core priorities for the organisation, they will be more likely to contravene. As demonstrated in the KPMG cultural dimensions, role modelling is an integral component of an organisation’s cultural behaviour.

Certain local institutions have also recognised the value of the role that leadership plays in behaviour and culture.

For example, De Nederlandsche Bank (DNB) highlights three touchstones for guidance in respect of the behaviour of leadership:

Negotiability	Role modelling	Feasibility
The focus of this touchstone relates to the manner in which leaders discuss decisions, alternative views, mistakes and violations while encouraging positive criticism from other layers of management.	This touchstone focuses on the awareness of illustrating personal integrity. This can be done by avoiding conflicts of interest (or the perception thereof), living by example, etc.	The core purpose of this touchstone is to ensure that leaders encourage integrity by setting realistic incentives and targets.

Another measure organisations can utilise to improve the ‘tone at the top’ is to diversify the skillset their board members. Refer to the ‘Governance and structure’ section for more detail regarding the importance and benefits of diversification and assessment of board dynamics.

4. Governance and structure

An organisation's structure and governance establish guidelines, rules, roles, responsibilities and accountabilities for carrying out work. This defines acceptable behaviour through the establishment of checks and balances, reporting lines and explicit distributions of responsibility and authority.

When implemented effectively, this can be a powerful mechanism for ensuring legislation, regulation, stakeholder expectations, and the organisation's values are upheld in day-to-day activities.

Trustworthy companies understand that structures and governance processes need to work in an integrated, co-ordinated manner, rather than in silos. A good governance and ethical culture are supported by an integrated compliance and integrity framework.

Companies also need to evolve to reflect changing accountabilities and expectations, by creating new roles, such as Chief Ethics Officer or Head of Responsible Sourcing.

Key questions to consider:

- Does the structure provide clear roles, responsibilities, accountabilities, co-ordination and alignment of interests across groups?
- Does the structure provide adequate governance and oversight at all levels to ensure competent execution in a manner that upholds company values and manages stakeholder risk and vulnerabilities?
- Are governance mechanisms up to standard in enabling, rather than inhibiting, the organisation's purpose?
- Are there any gaps in responsibilities and accountabilities that are not reflected in the company's governance mechanisms and structures?
- Do the governance mechanisms and structures engage and facilitate open two-way communication with internal and external stakeholders?
- Does the structure include sufficient provisioning for internal and external reporting of non-compliance and is this supported by detailed internal response plans?

Diversifying board skillsets to reflect changing accountabilities

Organisations function as complex social systems. Yet expertise in understanding and managing social systems is not commonly a feature of the skills matrix reflected in the composition of most corporate boards.

There is an untapped opportunity for boards to diversify their skillsets by including members with relevant social science training who bring this expertise — the likes of organisational psychologists and human resources experts. Such experts would bring a strategic perspective in areas such as organisational culture, structure, leadership, decision-making, remuneration systems, employee engagement and behaviour, power dynamics and stakeholder management.

The importance of managing culture and non-financial risks — such as conduct risk, reputation risk, environmental, social and governance (ESG) — is rising. It is prudent that boards ensure they have the required diversity of expertise to effectively understand and manage these accountabilities, and guide the organisation to meet evolving stakeholder expectations.

Some organisations are already making moves in this area. A method utilised by DNB is a policy on suitable screening. The policy aims to encourage and protect healthy group dynamics in board structures. This method considers the current composition of the board to ensure that suitable candidates have the relevant complimentary requirements to contribute to the healthy group dynamics. The relevant competencies would vary depending on the nature of the position and the organisation. This method encourages the importance of succession planning.

Approaches from other organisations include the appointment of cultural anthropologists to their board or the employment of organisational psychologists to lead, and inform the leadership of their work and risk culture.

Assessing board dynamics

In addition to suitable screening and succession planning, organisations can consider utilising an external board dynamics scan. This scan would include the following activities:

— conducting personal interviews with board members as well as key personnel/teams (such as secretary, risk, compliance, internal audit and actuarial) to get an impression of the perceived board effectiveness, board dynamics and tone at the top;

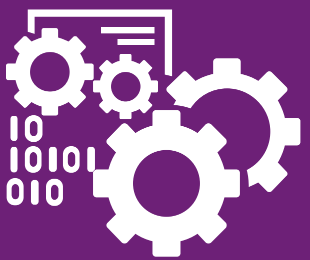
— observing board meetings to get an impression of the dynamics during an actual board meeting;

— analysing the above-mentioned activities and discussion of results during a group meeting with board members; and

— drafting a report with observations and recommendations.

Results of a board dynamics scan lead to better interaction between individual board members and more effective decision-making.

5. Systems and processes



Systems and processes, and their fair implementation, explicitly communicate what is considered acceptable behaviour. They also give cues about the organisation's ability, humanity and integrity. By contrast, absent, unclear, or unused systems and processes can facilitate, or fail to prevent, incompetent or dishonest behaviour.

HR policies, for example, can strongly influence employees' conduct and trust in their organisation. This applies to induction and socialisation processes, remuneration, training and staff development, employment security provisions, performance management, compliance, and family-friendly work practices.

Increasingly, customers, investors, rating agencies, and non-governmental organisations (NGOs) actively check whether an organisation has policies designed to ensure responsible corporate conduct — a human rights policy, for example — when evaluating that organisation's trustworthiness.

Key questions to consider

- Are risk, compliance, and reporting processes effective in identifying and managing key risks, without undermining agility, innovation and achievement of the organisation's purpose?
- Do communication, planning, and information systems enable effective co-ordination, alignment of interests, and meaningful dialogue with internal and external stakeholders?
- Do HR systems — including selection, induction, training, remuneration, promotion, evaluation, succession and compliance — reinforce the organisation's values and purpose, encourage trustworthy conduct, and induce employee trust?
- Are there robust mechanisms that encourage the surfacing and resolution of trust issues before they can escalate? Do they facilitate reporting of violations when appropriate?

The challenge of aligning remuneration systems with trustworthy conduct

Remuneration and purely financial incentives systems are frequently implicated in trust failures, and the financial services sector has been at the forefront of these challenges. Culture and remuneration are intertwined.

Often, incentives schemes focus myopically on revenue and profit generation (e.g. achieving financial goals and KPIs), which do not fully align with the organisation's purpose, values, and ethical standards (e.g. how the work is being done and with what impact on others). It is easy for employees and executives to lose focus on the organisation's purpose and responsibilities beyond profit, when a narrow set of KPIs are used to evaluate and reward.

A key to rebuilding and sustaining trust is to design more balanced remuneration systems and incentives that consider more broadly the purpose, ethical behaviour, risk, and key stakeholder outcomes and experience.

How the market is responding to remuneration risk

Changes in the market are shifting the way remuneration is determined and what it seeks to reinforce:

— **Quantum:** There is a public perception that the size of executive pay packages is not only out of touch with expectations but may also be a cause of trust and conduct issues. There is a slow response by companies to 'rebase' remuneration levels, with new CEOs on average starting on lower fixed pay than their predecessors. The use of incentives across all levels of a business is being reconsidered. Many organisations have stopped the use of incentives for customer-facing staff, to refocus the emphasis away from selling towards overall customer outcomes.

— **Assessing performance:** Financially dominated scorecards are being replaced with more holistic assessments of performance. While strategic or non-financial measures in executive remuneration frameworks were once perceived as 'soft' targets by shareholders, this has changed. Boards are now looking to regain the trust and confidence of stakeholders by demonstrating that non-financial measures are clearly linked to overall value and long-term sustainability of the organisation. A broader range of information is being assessed to determine the quality of results. For example, company profitability may increase, but have customer complaints increased or unresolved audit issues arisen?

— **Consequences:** Boards are now adopting a more structured approach in determining the remuneration consequences in the event of misconduct, risk failing or compliance breaches. This involves the application of tools such as malus (lapsing awards that have not vested yet) and clawback (recovery of already paid awards), which have to be defined relative to the severity of the issue and the individual accountability.

6. Products, services and operations

The level of responsibility that companies are expected to take for the social, economic, health and environmental impacts of their operations, products and services is increasing. Trustworthy organisations are able to evolve their operations to meet these changing expectations.

Companies lose trust when their product and service innovation is perceived to be for the benefit of the organisation, instead of the customer or society at large. By contrast, product and service design, development and delivery that genuinely engage stakeholders, and meet their needs, enhance trust.

Key questions to consider

- Are design, development and production processes focused on serving both company and stakeholder interests (e.g. customers, suppliers, regulators, affected communities)?
- Do we have mechanisms to mitigate the potential negative impacts resulting from our operations, products and services?
- Are humanity and integrity (safety, sustainability, fairness, honesty) a priority for all product and service teams? Are products and services marketed honestly?
- Are testing and monitoring performed across the entire supply chain to ensure that development and production competently, humanely, and predictably meet standards and expectations?
- Do we listen to customers to understand their needs and trust expectations? Do we assess whether our products and services meet expectations?
- Do we have robust and transparent product and service recovery processes to maintain customer and regulatory trust when a failure occurs?

The challenge of aligning products, services and brands with purpose

Ensuring products, services and operations are fundamentally aligned with and support the organisation's purpose and brand promise is essential to trust.

Yet, many scandals stem from organisations failing to deliver on their core purpose.

We have witnessed many examples over the years. Several organisations in the construction industry have compromised safety through structural and quality issues. Some organisations in the healthcare industry have failed to maintain medical equipment properly, directly contradicting their responsibility of providing optimum care. Similar cases have emerged in the automotive and airline industries, where safety was placed as a secondary priority to remain competitive in the market.

This challenge is particularly complex because it extends beyond the organisation's own infrastructure, to its entire supply chain. A company's employees, contractors, suppliers and partners — all those involved in designing, testing, producing or delivering an organisation's products and services — have a role to play in ensuring that the products and services are safe, reliable, and fit for purpose, meet expectations, and are created in a manner that does not cause harm.

Organisations need to understand, manage, and report on their supply chain operations and social impacts to avoid exposure to regulatory, NGO, investor, and employee scrutiny and associated reputational risks.

A related trust challenge occurs when an organisation redefines its social purpose or brand, without first resolving tensions and inconsistencies with its products, services and operations. Without demonstrable action and outcomes that consistently back an organisation's espoused purpose and brand positioning, stakeholders will be left cynical.

Redefining the organisation's purpose itself can be part of a strategy to create greater value for customers and communities. The most ambitious purpose re-alignments tap into shared value opportunities and use this as a way to build a culture of innovation that creates products, services and redesigned operations to address social, environmental or health issues. Unilever's Plan A, GE's Ecomagination and Intrepid Travel have all demonstrated the benefits and competitive advantage that come with maximising this alignment.

Designing trustworthy organisations

Designing a trustworthy organisation is a continuous process. It demands understanding and responding to evolving stakeholder expectations and regular adaptation of organisational infrastructure to facilitate trustworthy conduct in line with these expectations.

Breaking down this complex challenge is crucial to success.

We advocate a four-phase process with clear outcomes and decision gates at each phase.

Listen

Identify issues

1. Map the stakeholder ecosystem.
2. Listen deeply to understand external and internal stakeholder expectations.
3. Identify trust issues and root causes through in-depth qualitative and quantitative stakeholder research and metrics.

Assess

Develop a strategy

1. Assess how well the organisation is designed to meet stakeholders' trust expectations using the six elements of the model of organisational trust.
2. Analyse and prioritise identified issues and alignment challenges.
3. Provide recommendations on organisational redesign and mitigation activities.

Transform

Operationalise

1. Develop a transformation plan focused on priority areas.
2. Establish governance and project management office.
3. Implement recommended organisational changes.
4. Redesign the organisational infrastructure to strengthen trustworthiness.

Communicate

Build a trusted brand

1. Communicate back to stakeholders to demonstrate that you have listened and acted.
2. Evolve the brand strategy and platform to cement trust as a key pillar aligned with purpose, vision and values.
3. Build a communications framework to shift and align brand attributes.

evaluate, refine, monitor

Phase 1: Listen

Collecting and assessing rigorous metrics around trust is a challenge for many organisations. A recent survey published by KPMG and the Australian Institute of Company Directors showed that fewer than one in four Australian directors felt their organisations received meaningful metrics on trust.

On the occasions where metrics are used, they typically capture limited data on customer satisfaction or experience — NPS, service recovery processes, or employee voice, for example. This approach overlooks potential insights from other stakeholder groups.

For example, banks often point to customer survey scores to show their customers trust them. These metrics ask customers to rank 'ability' attributes through questions such as 'Do I trust you to keep my money safe?', 'Do I trust you to transfer my payment as instructed?', and 'Do I trust you to reverse fraudulent activity on my account?' This gives the banks an incomplete picture of their trustworthiness because it ignores key trust expectations around integrity and humanity. Perhaps, most critically, these surveys ignore broader stakeholder voices.

Developing a deep and accurate understanding of stakeholder expectations is an essential first step in designing a trustworthy organisation.

This involves listening to not only a wide range of stakeholder voices including customers, investors, and employees, but also suppliers, partners, regulators, policy makers, affected communities, NGOs, and the general public.

The aim of the listening process is to understand stakeholders' trust-related expectations and identify existing and emerging issues that can affect trust in the organisation and its social licence to operate.

The listening exercise also serves to establish baseline levels of stakeholder trust, which can subsequently be used to evaluate, track, and monitor the organisation's progress in managing trust and stakeholder expectations over time.

A thorough listening process supports boards and senior executives who are increasingly held responsible for company reputation, conduct, and culture. This includes ensuring that the organisation's risk management framework deals with material 'non-financial' risks that can affect the ability of the organisation to create value in the long term. These risks include human rights, social, and environmental impacts.

To manage these responsibilities well, the organisation should formally adopt an outside-in approach. It is the organisational equivalent of a 360-degree feedback process where the objective is to interact with as many stakeholder groups as necessary to gain a comprehensive appreciation of the issues and themes influencing trust in the organisation.

The Listen phase must include hearing the voices of employees and the trust issues they are witnessing, whether they are from the shop floor or the warehouse.

The outcome of this phase should be:

— a structured understanding of stakeholders' expectations of, and current trust in, the organisation;

— identification of current and future issues potentially affecting trust, along with their root causes.

Embedding a 'listening lens'

Organisations that sustain trust have built-in mechanisms that enable the timely surfacing and management of trust issues before they can escalate. This early warning system is essential for the proactive management of issues that can lead to the loss of stakeholder trust and reputation.

Effectively embedding a proactive listening approach requires:

— a comprehensive mapping of the organisation's stakeholder ecosystem, and capturing the voices of internal and external stakeholders, with special focus on the most vulnerable stakeholders;

— rigorous and independent qualitative and quantitative data collection and analysis — to ensure it is uncontaminated by political interference — including:

  – confidential stakeholder interviews, focus group sessions, and surveys;

  – customer and community feedback;

  – stakeholder sentiment sourced from media reports and social media intelligence.

Listening to the public and critics

Extending the listening phase to the general public and groups critical of the organisation is likely to be uncomfortable. However, the general public and critics can exert considerable influence over how an industry or business is viewed, which, in turn, can create genuine and powerful 'social licence' issues.

For example, in recent times, global climate strikes have flooded the news. Protesters have targeted entities associated with rising sea levels, toxic waste, air pollution, plastic waste, etc. with the aim to encourage sustainability.

In response, certain companies have started to realise the value of listening to the public and critics.

Recently, Coca-Cola European Partners emphasised that sustainability goals have become critical to value creation and business strategy and should be considered as more than just earning "green credentials". This has been corroborated by the company's announcement to incorporate sustainability criteria in its incentive programmes, resulting in a very positive reaction from customers, consumers and employees.

The purpose of the listening phase is not necessarily to forge agreements with all stakeholders. The purpose is to understand their perspectives, respond where appropriate, and build trust along the way by genuinely being open to criticism.

Phase 2: Assess

The second phase involves an internal assessment of how well the organisation is designed to meet stakeholders' expectations and respond to existing and emerging trust issues identified through the Listen phase.

This involves applying the model of organisational trust to assess the extent to which each of the six elements facilitates trustworthy conduct and the production of trustworthy products, services and operations.

As a starting point, the data from the listening exercise should be layered with the questions previously outlined for assessing 'How trustworthy is your organisation?'

This assessment provides the blueprint for ascertaining and prioritising the organisational changes required to strengthen trustworthiness.

The outcome of this phase should be:

- an assessment of the company's maturity in managing and meeting stakeholders' trust expectations and their impacts;
- a prioritised set of recommendations for reforming the organisation and building stakeholder trust.

Phase 3: Transform

The aim of the Transform phase is to plan and implement the prioritised organisational changes identified in Phase 2.

While our focus is on transformation for the explicit purpose of strengthening trust, designing a plan for trustworthiness can occur as part of a broader change and transformation process, such as digital transformations.

Indeed, transformations are an ideal time to redesign the plan for trustworthiness — and certainly a critical time to be proactive in managing trust.

Trust is often a casualty of disruptive change as organisations can become too inwardly focused. At the same time, change fatigue and a disconnect between the transformation rhetoric from the top and the reality of the change for those on the shop floor can pose a risk to internal trust.

These risks can be mitigated by explicitly and thoroughly designing trust into the transformation vision, plans, and objectives.

The outcome of this phase should be a transformed organisation in which ability, humanity, and integrity are designed into each organisational element, in a way that drives trustworthy conduct and outcomes across the business.

Phase 4: Communicate

The final phase is building a communications framework to clearly explain how the organisation has listened and taken action in response. This act of reporting back to internal and external stakeholders is critical because it builds perceptions that the organisation is truly responsive and accountable.

This process is particularly important when there has been a breach of stakeholder trust and in which case repair strategies may be required — explaining what happened and why, apologising for what occurred and offering compensation where appropriate, and communicating what has been done to ensure the breach does not occur again.

It also offers an opportunity to communicate in a way that demonstrates the alignment of the brand platform with the organisation's purpose, vision, culture and values. Well-aligned communication assures stakeholders that the promises made by the entity in the marketplace can be delivered on.

Designing a trustworthy organisation is not a one-off process

Organisations interested in building and maintaining trust will commit to a continuous process of cycling through the four phases to ensure that as expectations and circumstances change, the organisation's design keeps pace.

Summary: Practical steps

Because an organisation's stakeholders exist in a complex ecosystem, a multi-stakeholder approach to meeting trust expectations is critical.

Trust is complex. Yet, it is largely driven by perceptions of ability, humanity, and integrity.

These three components of trust must be proactively embedded into the six elements of organisational infrastructure to produce reliable, trustworthy conduct.

Six elements

1. Purpose & strategy
2. Culture
3. Leadership & management
4. Governance & structure
5. Systems & processes
6. Products, services, & operations

The trustworthiness of each of these elements should be regularly interrogated openly and honestly by posing key questions.

Designing a trustworthy organisation is a continuous process that can be usefully broken down into four stages.

1. Listen (understand the stakeholder trust and expectations, and identify issues).
2. Assess (evaluate the organisation's design and develop a trust strategy).
3. Transform (operationalise and embed trustworthiness).
4. Communicate (demonstrate that you have listened and build a trusted brand).

About the research and further reading

The research drawn on for this report was conducted over the past 20 years and focused on understanding how organisations and their leaders build, maintain and repair trust.

The research includes multiple case studies of major organisations (e.g. Siemens, Toyota, Mattel, BAE Systems and BBC) that recovered from significant trust failures, including interviews and focus group sessions with senior executives and employees, and analysis of archival material and investigation reports. It also includes multiple case studies of high-trust organisations, and organisations that preserved trust during significant disruption.

The report also draws on research examining stakeholder and employee trust in a range of corporate, public and not-for-profit organisations, within Australia and Europe, as well as data on the trust issues experienced by hundreds of executives and managers attending executive education programmes.

The research spans multiple industries and sectors including banking and financial services, healthcare, public utilities, government, engineering, defence and aerospace, automobile, education, toy, and media/entertainment.

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