Building trust in boards – supporting responsive and responsible leadership

ecoDa Dinner – March 14th, 2017

The topic of World Economic Forum 2017 was "Responsive and responsible leadership", addressing the role companies play in society. And ecoDa - as the European Voice of Directors - is taking this seriously, by continuing the work to rebuild trust in boards. Recognizing that rebuilding trust is not done through proclamations, but through action, through steady work – in ecoDa as a European umbrella, and on local terms in every national directors' organization – ever mindful of the fact that in today's global society, trust built over decades can be destroyed in a minute, and that what affects one, affects all.

To discuss the topic of "Building trust in boards – supporting responsive and responsible leadership", ecoDa organized a dinner in Brussels at the Cercle Lorraine on March 14th with its member institutes, its corporate associates and its peer organisations. The dinner was hosted by Standard Life Investments.

Turid E. Solvang (ecoDa Chair) and Mike Everett (Standard Life Investments) welcomed the participants. A discussion moderated by Trevor Pryer, Co-founder of Board Agenda was initiated with Alexis Van Bavel, PwC Partner; Gurpreet Brar, General Manager at Edelman and Lutgart Van den Berghe, Chair of ecoDa Policy Committee.

The outcome of the discussion is summarized below.

Mike Everett, Governance & Stewardship, Standard Life Investments

Mike Everett explained what means what Trust in Business means for an asset management firm like Standard Life Investments (UK Company with €330bn under management - with a rise to about €750bn following the proposed merger with Aberdeen announced last week).

When Standard Life Investments invests in a company they are allocating capital entrusted to them by their clients. In doing so they endeavour to act as stewards of their clients' money and so trust in the boards to whom they have allocated that capital is an important factor in their investment decisions. They take time to try and engage with the boards of the companies in which they invest in order to allow Standard

Life Investments to gauge the trust they can place in the board to create a successful company over the long term.

As well as the interaction they have with management through our analysts, they will also endeavour to engage with the chairs of boards and non-executive directors to allow Standard Life Investments to assess the individuals involved in the management and oversight of their most significant investments. It is only through such engagements they can start to get a feel for the levels of trust those individuals have in their ability to deliver.

In its engagement with companies Standard Life Investments is also interested in the companies' ability to develop and maintain the trust of other stakeholders, including employees, customers, suppliers and society. Great companies have great relationships with stakeholders and indeed situations where these relationships break down can be a signal of a failing strategy. Standard Life Investments' engagement will therefore cover broader aspects of company purpose, culture and the development or loss of trust. In its Annual Review, Standard Life Investments highlights a number of the examples of engagement they give which have aspects related to possible issues of trust, such as Sports Direct in the UK or Volkswagen in Germany.

As a company with stakeholders it is also important for them to engender trust. Delivering on what they promise is a key part of that and therefore transparent reporting of their activities is key to developing trust.

It is important to stimulate reflection around the development of trust in business. The Institute of Business Ethics has just published a report that indicates less than half of the British public believe that businesses behave ethically, with the main concerns being corporate tax avoidance, executive pay and exploitative labour. The Banking Standards Board's annual report includes the statement 'the onus is not on our customers, members or clients to trust the firm, but on banks to demonstrate through their actions they are worthy of being trusted.

Turid Elisabeth Solvang, ecoDa Chair :

2016 was a reminder of a lesson Europe already knows too well: that when people lose faith in their leadership, the outcome is unpredictable, and can frankly be dangerous. On top of that, we are in the midst of a new digital industrial revolution, a perfect storm of change, which races through business and society at an extreme velocity, affecting everyone in its path.

So clearly, this is not a time when business and industry can afford to stand on the sidelines. "Business cannot close its eyes to the challenges the world faces", says Paul Polman of Unilever. Instead we should all ask ourselves: What is the purpose of the company or organization we work for — and how can we contribute to achieve that purpose?

Companies are facing an upcoming shift in corporate governance, as emphasized by the King IV report, published in November in South Africa: Boards of directors and management groups are no longer just expected to comply or explain, but to take concrete steps to ensure that the company plays its role in society responsibly and sustainably. To ensure that companies make themselves worthy of the trust not only of their shareholders, but of their stakeholders – all their stakeholders.

In this context, ecoDa is more relevant than ever. As an umbrella organization for national directors' institutes, ecoDa takes pride in being "The European Voice of Directors". ecoDa wants that voice to promote good corporate governance, to help make enterprises more successful, and more sustainable.

Turid Elisabeth Solvang thanked Standard Life Investments for hosting ecoDa corporate associates dinner. She thanked all the speakers and Trevor Pryer, founder and publisher of Board Agenda.

Alexis Van Bavel, PwC Partner

This year was the 20th year that PwC carried out their survey of CEOs all over the world. Trust in the past was not as high on the radar. The financial crisis has pushed trust into the spotlight. The PwC CEO survey reveals that for leaders it's now time to both raise and communicate the role of business in society and the positive impact it can have.

The CEO survey highlights three main themes:

- Even though the second machine age is creating fear and uncertainty over the future of human labour, CEOs are still desperately looking for people –with an even wider variety of skills.
- CEOs acknowledge that long-term resilience depends on inclusive growth –and that this needs to happen through both corporate and systemic transformation.
- With rapid technological and global change contributing to a 'crisis of trust', CEOs recognise that trustworthiness is the new currency of the digital age.

In 2013, 37% worried that lack of trust in business would harm their company's growth. This year, the number has jumped to 58%.
To build trust, companies must be transparent also on tax paying. Companies have to deliver on their promises. They have to keep the contact with their employees and customers. They have to deliver on time and be consistent. Companies should build trust internally first and then externally.

69% of CEOs say it's harder for businesses to sustain trust in the digital age. In fact, in a digital world, it has become more difficult to gain trust. Big trust challenges include algorithms, artificial intelligence. Social media can have a negative impact.

The main issues that can impact trust are linked to technology and ethics. The enduring winners will be those who can successfully navigate technology and preserve the human touch. Competitive advantage will go to those with the greatest capacity to build relationships built on trust, which comes from sharing deep, sustainable values and purpose.

64% of CEOs think the way their firm manages data will be a differentiating factor in the future. Companies tend to prioritise human experience in a virtual world and treat their employees with integrity.

CEOs believe that prioritising the human experience in a virtual world, to focus on their customers and treat them with integrity can help to address the drop in trust.

Gurpreet Brar, General Manager at Edelman

The Edelman Trust barometer is usually launched at the Davos Forum. When Edelman launched its first edition in 2000, there was not much interest for the topic. However this has been transformed in recent years.

In its Trust Barometer, Edelman compares different segments of the population: the informed public and the mass population. In its 2017 edition, it is obvious that there is now a big gap between the perception of mass population and informed population. This gap is continuing to increase and the challenge today is how to close this gap.

Although in the past, people had believed that governments had the answers, this is no longer the case. In 2017, mass population rejects established authority. The EU itself is not trusted. Too many people think that the system is failing them. Even those at the top are disillusioned.

People expect businesses to lead and contribute to the overall benefits of the society. Companies need to do more to regain trust. They need brand organisation’s ambassadors. They have to realize that their best advocates are their people. It is important that companies don’t talk “at” their employees but “with” their employees. It should not be an option for companies to compromise their values.

The financial sector continues to perform badly, when compared to other sectors.

Trust in media and NGOs also declines. Trust in media plunges to all-time lows. Official sources of information are suspect and peers are considered as credible as experts.

Lutgart Van den Berghe, Chair of ecoDa Policy Committee

Trust in Boards, the year theme of ecoDa, is indeed impacted by numerous macro trends and societal evolutions; it is important that directors are well aware of this.

The challenge is not only to build trust among board members, which is of course a very important prerequisite for effective boards and correct board dynamics. Boards should also have trust towards the management and the shareholders. If there is no trust, the board cannot function well. The bigger challenge is to build trust in boards from a societal perspective.

To this end, it is important to observe the degree to which

- society at large has an issue with trust in general
- society at large has an issue with trust in business organisation

In this respect the report of PWC is very interesting, but alarming at the same time (e.g. facts matter less, trust in NGOs and media in decline....).

Bad Corporate Governance is often presented as a reason behind the financial crisis.

What can be done? What should we try to reach out? Boards need to be aware that decision-making behind closed doors, as they used to do, is no longer feasible in the new digital era.

Opaque decision-making, without accountability to other parties than shareholders is no longer possible. Society expects business firms in general, and directors and managers more specifically to increase transparency beyond disclosure:

- The volume of information is no longer the reference, it is its relevance to all stakeholders that matters: disclosure is not the same as transparency!
- But transparency is not enough either: from show me to prove me. It is accountability that matters: trust does not start by communication but with behaviour. To whom are directors accountable? Interest of shareholders can vary a lot. Board members have duties outside their duties towards shareholders. It is much more than a legal issue. More and more codes are considering now fiduciary duties towards other stakeholders.

But scrutiny is even more important:

- Each firm needs a license to operate
- Each organisation, small or large, listed or unlisted, for profit or social profit needs to walk the talk

In today society, fake news can have an important impact on the society's perception.

What ecoDa and its members should strive for:

- Steady work at building trust in directors & boards with all parties concerned (and not only shareholders and employees, but with all relevant stakeholders)
- Integrate in board education programmes a far more important emphasis on the broader societal picture: governance is not only about solving the agency problem (in the interest of shareholders), preventing conflicts of interest (between shareholders & directors versus the firm), or making sure compliance is in line with law and code recommendations. It is about long term sustainable value creation in a well-monitored way, hereby optimally respecting the interests of all relevant stakeholders.
- Make sure when screening or assessing governance effectiveness, that companies walk their talk. Good governance is not only about formal compliance, it is also about building the right corporate culture and living up to expectations!

Discussion with the participants animated by Trevor Pryer, Co-founder of Board Agenda

Observations from attendees and participants during the moderated discussion by Trevor Pryer

Effective corporate communication is a way for companies to build trust but many are not doing this sufficiently well. Too many companies assume that their annual report or website is enough, but their engagement with their stakeholder communities as well as shareholders can be more far reaching.

Integrated reporting is one way that companies can create a narrative about financial and non-financial aspects of their corporate strategy and performance.

Disclosure is an important mechanism by which companies can help to restore trust, because they will need to think carefully about their impact on society and how they are going to communicate their behavior to stakeholder and shareholders. Trust will only be reformed if an organisation is seen to be authentic in its communication about its strategy and corporate activities.

What can boards and leadership teams do to reform and or manage how trusted they are ? From a practical perspective companies need to discuss issues such as trust, reputation and culture at board level and put in place effective mechanisms. In this respect, the boards composition matters a lot, and shareholders as well as leadership teams need to pay attention to the profiles of the directors they appoint.

Further details:
The PwC CEO Survey
The 2017 Edelman Trust Barometer

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